



House of Commons  
Committee of Public Accounts

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# Lessons from PFI and other projects

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**Forty-fourth Report of Session 2010–  
12**

*Report, together with formal minutes, oral and  
written evidence*

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## Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine “the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit” (Standing Order No 148).

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The following member was also a member of the committee during the parliament:

Eric Joyce (*Labour, Falkirk*)

### Powers

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Additional written evidence may be published on the internet only.

### Committee staff

The current staff of the Committee is Philip Aylett (Clerk), Lori Verwaerde (Senior Committee Assistant), Ian Blair and Michelle Garratty (Committee Assistants) and Alex Paterson (Media Officer).

### Contacts

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## Summary

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The UK has 700 PFI contracts delivering a wide array of public assets and services with 61 further PFI projects in procurement and many other projects where PFI is being considered. Restrictions on capital budgets have meant that many of the assets delivered by PFI, including hospitals, schools, prisons, courts and roads might not otherwise have been built.

In the present public expenditure climate there are legitimate concerns being expressed about the continuing financial cost of PFI for public organizations such as NHS Trusts. Some of government's case for using PFI has not been based on robust analysis, but on ill founded comparisons and invalid assumptions. On individual projects, the costs and benefits identified in business cases need to be revisited after contracts are signed and periodically thereafter, to inform future procurement decisions.

In particular, Government should revisit the tax assumptions it builds into the cost and benefit case for PFI. Government assumes tax revenue for Government from PFI investments, but one of the largest PFI investment funds told us that 72% of the shareholders of its management company are registered offshore.

Taxpayers could get a much better deal from PFI, as demonstrated by the buoyant and profitable market in PFI deals. The taxpayer's position is made worse by poor transparency of investor and contract information alongside patchy public sector commercial skills. We suspect that initial investors are able to make excessive profits from selling PFI shares, yet we lack the information to know for sure. Freedom of information provisions do not currently apply to private providers of public services though investors told us they are willing to make more detailed information available. We believe there is a strong case for sharing these gains with the Government. We look to the Treasury and departments to make full use of existing contractual rights of access and further investor information to increase transparency and find ways for taxpayers to get a share of these gains.

At present, PFI deals look better value for the private sector than for the taxpayer. Private sector funds have built up portfolios of PFI projects from the large market that government has created. The private sector manages these projects as a portfolio, benefiting from potential economies of scale without any obligation to share such volume gains. Government, in contrast, has a fragmented approach and is not making use of its bulk buying power. We accept that contracts have got tighter over time and that the Treasury is seeking further efficiency savings, and would urge a bold and speedy approach. Achieving any savings on existing contracts will depend on voluntary agreements with investors and suppliers. We look forward to the results of a pilot project seeking to identify opportunities for public sector wide savings from existing contracts. The onus is on the Treasury and departments to negotiate tangible savings without putting the quality of public services at

risk.

On the basis of a report by the Comptroller and Auditor General,<sup>1</sup> we took evidence from the Treasury, the Major Projects Authority and certain prominent investors on lessons from PFI and the implications for future projects.

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1 C&AG's Report, *Lessons from PFI and other projects*, HC (2010-12) 920

## Conclusions and recommendations

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- 1. Although PFI has delivered many new public buildings and services, it has been far too easy for the Government to use it as the only form of financing available without clearly proving whether it is value for money.** Alternatives to the standard PFI approach could involve: cheaper sources of finance; using selected elements rather than the entire, complex PFI contract; and trials of PFI and non-PFI approaches for similar projects. The Treasury must properly consider all the alternatives to PFI and should rigorously explore radical improvements to the PFI model. **The use of PFI has been based on inadequate comparisons with conventional procurement which have not been sufficiently challenged. The justification of proceeding with PFI in the future needs to have regard to a range of important factors.** Assessments of new projects should include: a more transparent and complete comparison of alternative funding, the current high cost of using private finance; a rigorous assessment of the transfer of risk to investors; how substantial long-term financial commitments will be accommodated within the public sector's need to make spending cuts; and the potential for improvements in the **delivery of conventional projects. The Treasury should issue new guidance setting out a more rigorous method for assessing the value for money** of proposed PFI projects that includes these factors by autumn 2011.
- 2. Tax revenue is being lost through the use of off-shore arrangements by PFI investors and the effect has not been adequately assessed. The Committee is concerned that the Treasury has no plans to address this matter.** Some PFI investors reduce their exposure to UK tax through off-shore arrangements. Yet the Treasury assume tax revenue in their cost-benefit analysis of PFI projects. The Treasury could not tell us if PFI investors had paid tax in the UK on profits and on equity gains, or whether corporation taxes had been collected from PFI companies. The Treasury should measure the tax revenues from PFI deals and should ensure that this is taken into account in future assessments of PFI against conventional procurement.
- 3. The public sector has insufficient information on the returns made by PFI investors and no mechanism for sharing in gains when the investors sell their shares.** Partial information we have seen suggests initial investors can quickly make high profits from selling on their shares in PFI projects, indicating that the taxpayer may be getting a poor deal in the original PFI contracts. The Treasury should introduce arrangements for sharing gains on the sale of PFI equity shares in new PFI projects. We consider there is also a case for a code of conduct for sharing gains from share sales in existing contracts. A similar code was implemented on refinancing to ensure that high investor returns did not damage the prospects for the Government being able to continue to enter into PFI deals. The Treasury should agree with investors how data on investor returns, including the value at which shares change hands, can be captured and made available to the Treasury.
- 4. Transparency on the full costs and benefits of PFI projects to both the public and private sectors has been obscured by departments and investors hiding behind**

**commercial confidentiality.** The Treasury cited commercial sensitivities for not allowing freedom of information provisions to apply to the private sector. Once contracts have been let, commercial confidentiality should not restrict the ability of the public, Parliament and decision makers to access information. Freedom of information should be extended to private companies providing public services. The Treasury should define commercial confidentiality and the exceptional circumstances where it applies.

5. **The public sector has failed to make best use of commercial skills.** Departments should have developed commercial experience from using PFI but we still see some examples of projects and contracts which are clearly lacking in commercial awareness. The Major Projects Authority and the Treasury should identify and publish lessons from the PFI experience to improve the public sector's commercial skills across all projects. This should include safeguarding commercial skills capability during the current public sector reorganisation to ensure there is adequate contract management of the PFI portfolio.
6. **The Treasury must address the scope for greater efficiencies from PFI projects.** Any savings on existing contracts will be dependent on voluntary agreements by the private sector which may involve service cuts. The Treasury should update us by November 2011 on the extent of the savings to be achieved, where and how they have been achieved, and how it is minimising the risk of compromising service quality in individual PFI projects and across the programme. We wish to be advised of any companies that do not agree to make savings and expect the Treasury to consider whether the Government should continue to do business with these companies.
7. **There is a tension between the fragmentation of public service delivery through the localism agenda and making best use of the Government's bulk buying power.** It is notable that PFI investment funds are managing many of the 700 PFI contracts as a portfolio, whereas the public sector is not. The Treasury must set out how it will maximise the Government's buying power to improve value for money for users and taxpayers in the context of the declared policy on localism.



# 1 The case for PFI

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1. Over the past 15 years, PFI has enabled many new public buildings and services to be delivered, some of which might not otherwise have been commissioned. The UK has 700 PFI contracts with 61 further PFI projects in procurement and many other projects where PFI is being considered as an option. The Treasury has championed PFI as a means of renewing infrastructure in an era when capital constraints meant public finance was not freely available.<sup>2</sup> At times PFI has seemed ‘the only game in town’.<sup>3</sup> It has been far too easy to use PFI as the only form of financing available without clearly proving whether it has led to demonstrably better, or worse, value for money than other forms of procurement.<sup>4</sup> Since the credit crisis, however, the cost of a typical PFI project has risen by 6% to 7%.<sup>5</sup> Innisfree, one of the PFI investment funds we took evidence from, told us that it was not negotiating new PFI deals in the UK at the moment, as the UK market was getting too expensive.<sup>6</sup>

2. The use of private finance has brought a degree of rigour with more projects being delivered on time and within cost but that does not mean they will always be value for money, particularly given the current high cost of debt finance. There are alternatives. Innisfree told us that in Canada, the Government has bought out debt after the construction phase.<sup>7</sup> Other approaches used in Canada and in France had the public sector contributing loans, rather than using more expensive bank finance at the outset, which brought the overall cost down.<sup>8</sup>

3. Comparison of broadly similar assets procured over the same time period using PFI and conventional procurement methods would help inform future decisions on the best form of procurement.<sup>9</sup>

4. Rigorous assessment of the value for money of PFI projects depends on having accurate and up-to-date data on which to compare against conventional procurement costs. The comparators have also been very sensitive to assumptions for the effect of risks.<sup>10</sup> We have previously questioned the way the public sector comparator test has been carried out, for example to justify the Future Strategic Air Tanker and Manchester Waste incinerator PFI projects.<sup>11</sup> The Treasury said it was completely updating its private finance value for money guidance which would include an assessment of the value and benefits realised after contracts were entered into.<sup>12</sup>

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2 Qq 119, 136

3 Qq 144, 146, 149

4 Qq 139, 149, 199

5 Qq 5 - 6

6 Qq 113-115

7 Qq 55, 131

8 Qq 8, 96

9 Qq 149 -150

10 Qq 136,137

11 Qq 137-141

12 Qq 199-200

5. Rigorous assessment of the case for using PFI must also include a more accurate reflection of transfer of risk, the focus of which will often alter and change over the life of any contract.<sup>13</sup> The risks associated with the construction period, for example, are much greater than the risks associated with the operational phase. We are sceptical of the Treasury's assessment that effective risk transfer has been achieved in PFI deals.<sup>14</sup> Although the transfer of construction risk has generally protected the taxpayer, it is impossible to be certain how well risk transfer will work over long time periods such as 30 or 40 years.<sup>15</sup> In addition, the large profits made by some companies involved with PFI contracts suggest that the risk transfer in the short term has not been properly priced in the interests of the taxpayer.<sup>16</sup>

6. PFI arrangements have long term implications for the annual budgets of public sector bodies. Media reports have indicated that one South London Healthcare Trust with two PFI contracts has had to reorganise its non-PFI hospitals to help fund its PFI commitments.<sup>17</sup> Funding any large new infrastructure is a major commitment and the Treasury acknowledged that there was less flexibility for reorganisation if a body was locked into a PFI contract.<sup>18</sup> Historically, it had been difficult to negotiate a deal flexible enough to take account of developments likely to take place over the next 25 to 40 years. The Treasury agreed that infrastructure acquired for health care needed to combine the best possible value for money with the flexibility to respond to changes and advances in health care delivery.<sup>19</sup>

7. Treasury guidance requires that, where publicly financed options are compared to PFI options, taxation differences should be considered and adjustments explicitly made if not doing so would materially distort the decision.<sup>20</sup> Tax planning and the use of tax havens as a way of avoiding UK tax are not uncommon.<sup>21</sup> We heard that 72% of Innisfree's shares are held by shareholders based in Guernsey.<sup>22</sup> The Treasury told us it would be inappropriate to speculate, when assessing whether a PFI contract should be let, on the possible future tax arrangements that investors might put in place. The tax assumptions at contract letting are, however, not revisited during the operational phase.<sup>23</sup> The Treasury was unable to confirm the extent to which parties involved with PFI contracts were paying UK tax and whether the companies holding PFI contracts were paying UK corporation tax.<sup>24</sup>

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13 Qq 120,121

14 Q 131

15 Q 129

16 Qq 4, 120

17 Q 160

18 Q 165

19 Q 167

20 Q 183

21 Q 187

22 Qq 25,26

23 Q 188

24 Q 186

## 2 The returns to investors

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8. Investors typically provide 10% of the finance of a PFI project. There are primary investors (developers and constructors) and secondary investors (those who acquire shares in operational PFI projects). The secondary investors are typically specialist PFI investment funds which manage a portfolio of PFI contracts to generate an income stream for those who have invested money in the funds.<sup>25</sup>

9. There is little information available on the returns made by primary and secondary investors on their PFI investments making it impossible for the public sector, Parliament and the public to assess whether the investors' returns are reasonable for the risks they bear.<sup>26</sup>

10. Innisfree told us that there was little money to be made in the initial stages of a traditional construction project – contractors on big construction projects typically worked to profit margins of 2% to 3%.<sup>27</sup> Yet a recent report<sup>28</sup> suggested that primary investors in PFI projects could sell their shares soon after construction is complete and average a profit of over 50%.<sup>29</sup> Innisfree, which is involved in developing PFI projects, did not accept the accuracy and objectivity of the report's findings. They argued that they had suffered losses on the Cornwall Schools and Dalmeir PFI projects which had to be balanced against the opportunities for profits.<sup>30</sup> Innisfree and Semperian agreed to make information available on the purchase and sale of their PFI investments.<sup>31</sup>

11. There is no limit to the returns which investors can make from PFI projects. There is also no requirement for the gains on the sale of shares in PFI projects to be shared with the Government other than through the taxation of capital gains which investors may be able to avoid.<sup>32</sup> Innisfree argued that any attempt to significantly reduce the returns of its investors on existing contracts would damage the UK PFI market's credibility.<sup>33</sup> Semperian was, however, willing to consider new contract arrangements which allow the Government to share in investors' returns above a defined threshold.<sup>34</sup>

12. Innisfree told us that it aimed to achieve returns of between 8% and 10% per annum for its investors.<sup>35</sup> Investors in its four funds were predominantly UK pension funds, looking for low risk investments that offered a good return.<sup>36</sup> The rewards to investors and

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25 Q 4

26 Qq 126, 128

27 Q 4

28 European Services Strategy Unit Report Number 4 - <http://www.european-services-strategy.org.uk/publications/essu-research-reports/essu-research-report-no-4-the-ps10bn-sale-of-s/10bn-sale-of-ppp-shares.pdf>

29 Qq 2, 3

30 Qq 44, 45, 64

31 Qq 116-117

32 Q 28

33 Qq 78, 83

34 Qq 84, 108

35 Qq 10, 82

36 Q 72

managers of the funds appear to us to mean that the private sector was receiving excessive profits on the back of Government funded projects at the expense of the taxpayer.<sup>37</sup>

13. Public scrutiny of investor returns has been inhibited by the absence of an obligation on investors to disclose full details of their profits and gains on PFI deals. The Treasury cited commercial sensitivities for not allowing freedom of information provisions to apply to the private sector.<sup>38</sup> While aspects of some deals may be commercially sensitive, it has been all too easy for departments and investors to hide behind commercial confidentiality, rather than provide full disclosure of costs and benefits to inform value for money.<sup>39</sup> These are publically funded investments and should be subject to public scrutiny.

14. We heard that the public sector has not made full use of available investor and contract information. Normally it has information on the primary investors' expected rates of return when assessing bids. In recent contracts the public sector also has the right to obtain information which investors provide to the banks which are providing debt finance. However, the public sector has rarely used this information provision. Whilst these arrangements, if fully utilised, are helpful they fall short of full transparency.<sup>40</sup>

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37 Qq 97-99

38 Qq 124, 125

39 Q 128

40 Qq 14, 15

## 3 Getting better deals

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15. This Committee has frequently highlighted a lack of commercial awareness by public officials in project procurement and contract management. Innisfree and Semperian attributed the skills deficit across the Government in part to the public sector not attracting the best people, because it could not pay them as much as the private sector, and also because civil servants tended to be attracted to policy, rather than procurement roles.<sup>41</sup> It is difficult to draw any comfort from the Treasury's assertion that the commercial and contract skills of people working on recent PFI deals are stronger than five years previously, given the evidence of our recent examinations of projects such as the PFI contract to widen the M25 where up to £1.1 billion could have been saved for the taxpayer.<sup>42</sup>

16. We remain concerned about contract management capability: 36% of NHS Trusts have less than one full-time contract manager on their PFI contracts and 12% have no one managing these contracts.<sup>43</sup> Strong contract management is fundamental to obtaining value for money and we have asked the Treasury to report back to us on the progress being made to address our concerns.<sup>44</sup>

17. The Major Projects Authority, which was mandated in January 2011, outlined its plans to raise skill levels across the public sector and to improve the scrutiny of projects that were high risk and high value.<sup>45</sup> We are concerned, however, that despite the risks to value for money which we have highlighted, very few PFI projects are scrutinised by the Major Projects Authority and the Treasury have yet to decide what action to take to address this.<sup>46</sup>

18. In the past six months, some 15 years after the first PFI deal was signed, the Treasury has launched a pilot to trial the scope for negotiating efficiency savings in an operational PFI project. The Treasury is proposing to issue guidance reflecting the lessons learned from the pilot. The extent to which the public sector can share in efficiency savings will be dependent on reaching voluntary agreement on a case by case basis with the private sector. Obtaining savings now should not, however, be at the expense of service cuts to the PFI project or to neighbouring non-PFI projects.<sup>47</sup>

19. An example where there is scope for further savings is maintenance charges. We have previously voiced our concern about high charges for small additional works on PFI contracts.<sup>48</sup> The public sector has not had data on supply chain profitability and would not

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41 Qq 40, 202

42 Q 157; Committee of Public Accounts: Nineteenth Report of Session 2010-11, *M25 PFI contract*, HC651

43 Q 171

44 Q 203

45 Qq 180, 181, 206

46 Q 182

47 Qq 131, 169, 172

48 Committee of Public Accounts, Thirty-sixth Report of Session 2007-08, *HM Treasury: Making changes in operational PFI projects*, HC332

know the actual costs, for example, behind charges by service providers to fix the windows on a project.<sup>49</sup>

20. There is a tension between the local negotiation of many PFI contracts and the untapped potential for obtaining value for money centrally using the Government's buying power. Most of the 700 PFI deals signed to date have been negotiated and managed locally.<sup>50</sup> Innisfree and Semperian's strategy, however, has been to build portfolios of projects overseen centrally which may create opportunities for economies from better management across their portfolios. We note the current work underway by the Major Projects Authority for central negotiations with major suppliers. It was not clear, however, whether the lessons from this work could be applicable to PFI.<sup>51</sup>

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49 Qq 14 - 15

50 Q 182

51 Qq 180, 206

# Formal Minutes

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**Monday 18 July 2011**

Rt Hon Margaret Hodge, in the Chair

Mr Richard Bacon  
Mr Stephen Barclay  
Dr. Stella Creasy  
Jackie Doyle-Price

Matthew Hancock  
Mrs Anne McGuire  
Austin Mitchell  
Nick Smith

Draft Report (*Lessons from PFI and other projects*) proposed by the Chair, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 20 read and agreed to.

Conclusions and recommendations 1 to 7 read and agreed to.

Summary read and agreed to.

*Resolved*, That the Report be the Forty-fifth Report of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for placing in the Library and Parliamentary Archives.

[Adjourned till Monday 5 September at 3.30pm]

## Witnesses

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### Wednesday 15 June 2011

*Page*

**David Metter**, Chief Executive, and **Graham Beazley-Long**, Director, Innisfree, and **Bill Doughty**, Chief Executive, Semperian PPP Investment Partners Ev 1

**Andrew Hudson**, Director General of Public Services and Accounting Officer, HM Treasury, **David Pitchford**, Chief Executive, Major Projects Authority, Cabinet Office, and **Andrew Rose**, Acting Chief Executive, Infrastructure UK Ev 13

## List of printed written evidence

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1	Innisfree	Ev 26
2	Dexter Whitfield	Ev 27
3	Infrastructure UK, HM Treasury	Ev 33: Ev 33: Ev 34: Ev 38: Ev 48



# List of Reports from the Committee during the current Parliament

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The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

## Session 2010–12

First Report	Support to incapacity benefits claimants through Pathways to Work	HC 404
Second Report	Delivering Multi-Role Tanker Aircraft Capability	HC 425
Third Report	Tackling inequalities in life expectancy in areas with the worst health and deprivation	HC 470
Fourth Report	Progress with VFM savings and lessons for cost reduction programmes	HC 440
Fifth Report	Increasing Passenger Rail Capacity	HC 471
Sixth Report	Cafcass's response to increased demand for its services	HC 439
Seventh Report	Funding the development of renewable energy technologies	HC 538
Eighth Report	Customer First Programme: Delivery of Student Finance	HC 424
Ninth Report	Financing PFI projects in the credit crisis and the Treasury's response	HC 553
Tenth Report	Managing the defence budget and estate	HC 503
Eleventh Report	Community Care Grant	HC 573
Twelfth Report	Central government's use of consultants and interims	HC 610
Thirteenth Report	Department for International Development's bilateral support to primary education	HC 594
Fourteenth Report	PFI in Housing and Hospitals	HC 631
Fifteenth Report	Educating the next generation of scientists	HC 632
Sixteenth Report	Ministry of Justice Financial Management	HC 574
Seventeenth Report	The Academies Programme	HC 552
Eighteenth Report	HM Revenue and Customs' 2009-10 Accounts	HC 502
Nineteenth Report	M25 Private Finance Contract	HC 651
Twentieth Report	Ofcom: the effectiveness of converged regulation	HC 688
Twenty-First Report	The youth justice system in England and Wales: reducing offending by young people	HC 721
Twenty-second Report	Excess Votes 2009-10	HC 801
Twenty-third Report	The Major Projects Report 2010	HC 687

Twenty-fourth Report	Delivering the Cancer Reform Strategy	HC 667
Twenty-fifth Report	Reducing errors in the benefit system	HC 668
Twenty-sixth Report	Management of NHS hospital productivity	HC 741
Twenty-seventh Report	HM Revenue and Customs: Managing civil tax investigations	HC 765
Twenty-eighth Report	Accountability for Public Money	HC 740
Twenty-ninth Report	The BBC's management of its Digital Media Initiative	HC 808
Thirtieth Report	Management of the Typhoon project	HC 860
Thirty-first Report	HM Treasury: The Asset Protection Scheme	HC 785
Thirty-second Report	Maintaining financial stability of UK banks: update on the support schemes	HC 973
Thirty-third Report	National Health Service Landscape Review	HC 764
Thirty-fourth Report	Immigration: the Points Based System – Work Routes	HC 913
Thirty-fifth Report	The procurement of consumables by National Health Service acute and Foundation Trusts	HC 875
Thirty-seventh Report	Departmental Business Planning	HC 650
Thirty-eighth Report	The impact of the 2007-08 changes to public service pensions	HC 833
Thirty-ninth Report	Department for Transport: The InterCity East Coast Passenger Rail Franchise	HC 1035
Fortieth Report	Information and Communications Technology in government	HC 1050
Forty-first Report	Office of Rail Regulation: Regulating Network Rail's efficiency	HC 1036
Forty-second Report	Getting value for money from the education of 16- to 18 year-olds	HC 1116
Forty-third Report	The use of information to manage the Logistics supply chain	HC 1202
Forty-fourth Report	Lessons from PFI and other projects	HC 1201
Forty-fifth Report	The National Programme for IT in the NHS: an update on the delivery of detailed care records	HC 1070

# Oral evidence

## Taken before the Committee of Public Accounts on Wednesday 15 June 2011

Members present:

Rt Hon Margaret Hodge (Chair)

Mr Richard Bacon  
Stephen Barclay  
Stella Creasy  
Jackie Doyle-Price  
Matthew Hancock  
Chris Heaton-Harris

Joseph Johnson  
Mrs Anne McGuire  
Austin Mitchell  
Nick Smith  
Ian Swales  
James Wharton

**Amyas Morse**, Comptroller and Auditor General, **David Finlay**, Director, NAO, and **Paula Diggle**, H M Treasury, Treasury Officer of Accounts, gave evidence. **Gabrielle Cohen**, Assistant Auditor General, was in attendance.

### REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

#### Lessons from PFI and other projects (HC 920)

##### Examination of Witnesses

*Witnesses:* **Graham Beazley-Long**, Director, Innisfree, **David Metter**, Chief Executive, Innisfree, and **Bill Doughty**, Chief Executive, Semperian PPP Investment Partners, gave evidence.

**Q1 Chair:** May I welcome you to this evidence session? I do not know if it has been explained to you, but the first session will be relatively short—not a very long session with the three of you—then we move into a session where we hold the accounting officers to account on these issues. I am grateful to you for having come. The way to best manage this will be: we will try and keep our questions short, and if you can keep your answers very much to the point, we will be able to get through more in the time that we have available to us, so many thanks. I will start with the one, which I might ask of you, Mr Metter: there was evidence submitted to the Treasury Select Committee on a study done by the European Services Strategy Unit, tracking the sales of equity in some individual or group transactions. In the 63 transactions they tracked, they showed that the total value of the equity was just over £1 billion, and the declared profit was over £0.5 billion. How do you justify what appears to all of us to be ripping off the taxpayer?

**David Metter:** Can I just step back slightly first? The document you are talking about has been prepared by Dexter Whitfield, who works a lot with UNISON. They have a political objective, which is really to stop the PFI, so the way that that document is framed is not to be positive or balanced.

**Q2 Chair:** Just to get into it, perhaps you could tell us what your profit share is on the transactions that you have made.

**David Metter:** Can I just get back to this report? He talks of a 50% or 60% profit; that is treated as something that is very high, but what is left out of that report is that when investors look at profits, we look at profits per annum. If you commit £100 to a PFI project in the equity, and six years later you manage

to sell that and you make a 50% profit, your annual return on your investment would be 7%. That is how we look at these returns; they have to be set in time, and he does not do that, he is just looking at big numbers. That is one of the problems we find in PFIs, a lot of voodoo mathematics goes on, where people construct numbers that are self-serving. He also then compares the numbers to—

**Q3 Chair:** To interrupt you, that is the capital return. All through the life of the PFI you are also getting a revenue stream, so it is not your only income out of your investment. Your investment brings you a revenue stream.

**David Metter:** If you commit money into a PFI project then during the during the construction period you are not going to receive very much money; very often in the early period of commissioning you also will not.

**Q4 Chair:** Your company does not take them over. You tend to buy them and bundle them up after they have been constructed.

**David Metter:** We do not. 50 of the 57 projects that Innisfree now manages and owns we have bid for and won in competition at the primary stage. We have in the last 10 years acquired another 43 equity investments in PFI projects, so we are a major holder of PFI investments. We sold very little. We sold three investments which totalled £7.5 million. We are not part of that discussion, which is that we are making loads of money selling PFI projects for a profit. I just would like to say that that report does not deal with annual returns, and it also compares those returns to construction profit margins, which is like comparing apples with oranges. Investing in assets and building big projects as a construction contractor are very

different businesses, and you would expect contractors to make quite small margins, which they do: 2% or 3%. To compare that to a 50% profit that some PFI equity investors make—that is not even reduced to a time value—shows that this document is very politically driven; it is not trying to set out a framework for one to decide whether PFI investors are making too much money, which is where you want to go with this.

If I can go into that part of the question, at the early stages of a PFI project, when the project is financed, what we attempt to do is achieve the lowest weighted average cost of capital. That is, the cost of capital of the debt and the equity combined. Because debt is much cheaper than equity, you will find that in all PFI projects we try and maximise the amount of debt in the project. We put as much debt in as possible, because it is cheaper. We are constrained in doing that, because the debt service needs a cushion, and that cushion is the equity. That, at the outset, is the recipe for how we work out a capital structure, and typically the debt is 90% and the equity is about 10%.

If we look at projects that are pre-2008, the weighted average cost of capital of those projects, which we can extend to the entire PFI marketplace, we consider, is around 5.7%. That is the cost of the capital for these projects. When you compare that against the long-term gilt, which is what the Government could borrow if it did it all itself, the Government gilt would have been about 3.5%. The extra cost of capital for doing these projects using PFI is about 2.2%.

**Q5 Chair:** That was pre-2008, and clearly now costs have increased, because the costs of borrowing have massively increased. The figure we have got from the NAO is somewhere between 6% and 7%. David Finlay will correct me if I'm wrong. The extra cost of borrowing through PFI is between 6% and 7%; that is your calculation?

**David Metter:** Since the credit crisis, the effect of additional bank finance costs is 6% to 7%.

**Q6 Chair:** Yes, is 6% to 7%.

**David Metter:** Clearly the credit margins have gone up enormously since the credit crisis.

**Q7 Chair:** Yes, so you took a pre-2008 figure, because it suited the purpose of your argument rather than reflecting the reality

**David Metter:** First, most of the projects are pre-2008. Since 2008 there has been a real rundown in the number of new PFI projects that have been financed.

**Q8 Chair:** My understanding is there are a lot in the pipeline, and there are a lot that have been let in the last year. I do not think the evidence demonstrates that.

**David Metter:** If I can get back to the costs, this week we have completed one of the largest hospital projects in the world, in Montreal: the new University of Montreal Hospital project. We raised C\$1.3 billion, and the credit margin on that was 310 basis points, compared to the pre-2008 debt margins that we were raising in the UK of 50 basis points. It shows that where there is a political will these projects can be

done, even at these high credit margins. On our project in Montreal C\$1.3 billion of debt has been raised for 38 years at a 310% credit margin. You can say that the Government of Quebec is crazy, Canada is crazy, but they are making their own political decisions about how they want to secure their infrastructure projects.

They also contributed nearly C\$1 billion to the project, so there is a model that is used in Canada and in France where the public sector themselves contribute significant amounts of debt, which brings the overall cost down. All I am saying is that since 2008 there have been changes to the model. We have another project in Vancouver, in Fort St. John in northern British Columbia, where the state put in all the money; all we put in was the equity, so there was equity plus Government money. The state took the view that the equity investors effectively drive the efficiencies of the project. This is the other half. Without the equity investors in the PFI projects the whole model breaks down, because you very quickly go back to traditional procurement; the procurement authority effectively falls back into the Government Departments.

We would say that, as the equity investors, we are driving these projects, we are driving the efficiencies, we are ensuring the projects get built, on cost, on time.

**Q9 Chair:** What is your return?

**David Metter:** Our secondary funds

**Q10 Chair:** Can I ask you two questions? One, what is your return? Are you willing to share that averaged across your investment here in the UK in PFI? Two, would you be prepared to have a much more transparent system, so that, where you invest as a private company in public projects, that could be open to public account in the same way as any freedom of information request elsewhere? If you could answer those two that would be very helpful.

**David Metter:** Our returns that we try to achieve for our investors in our long-term funds, the funds where the investments go in forever, are between 8% and 10% per annum. If you think of it as a cash-on-cash yield, if they put up £100 million, they want to get between £8 million and £10 million back per annum. In terms of relative investment opportunity and what is available to investors on a global scale, that is not a very high return. It needs to be quite low risk.

**Q11 Chair:** Do you think we are getting a good deal? Do you think the taxpayer is getting a good deal? Is that your proposition?

**David Metter:** I think that UK plc is getting an excellent deal. It is unfortunate that this is not communicated effectively, but to be able to raise what is effectively £65 billion of finance to finance this programme, at an average cost of 5.7%, is a good deal by any investor standards and financial standards.

**Q12 Chair:** Would you be prepared to be more transparent about the whole of your business models, and all that?

**David Metter:** Firstly, let us talk about—

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**Q13 Chair:** Would you be prepared—it is a yes or no really.

**David Metter:** Can I just explain first: we are very transparent. All our projects—

**Q14 Chair:** We do not think you are. We do not have the information.

**David Metter:** Can I just say something? The public sector is counterparty to all our projects. They have project information; they have a wealth of information. Sure, there is a challenge for them to be able to use this information effectively, but at the stage where a project reaches financial completion they have as much information as we do. Sure, they do not have the supply chain profitability—they do not know exactly how much the service providers fixing the windows on a project are actually charging to do that—but they have a price, they have a business model, they have all the contracts and concession agreements. They have a huge amount of information, and under the new PFI contracts, SoPC4, they even have rights to ongoing information: at any time they can request information and see the business models. This is part of the contractual relationship we have. I'm afraid that a lot of this transparency discussion is just not correct.

**Q15 Chair:** Can I just ask the NAO to confirm that that is your experience?

**David Finlay:** What Mr Metter said is factually correct: in new contracts there is a requirement that the public sector can see information that investors give to their banks. That is a degree of transparency, but in our experience we have not seen it used to any great extent.

**David Metter:** That is because the public sector is not requesting it. It is not up to us to deliver information. The public sector is our counterparty; they have a right to all this information, which they are free to be able to ask the project companies for and that is something that they do in some situations.

**Q16 Mr Bacon:** Mr Metter, you say that you are transparent and you are happy to be transparent. Do you pay UK tax?

**David Metter:** Do I personally pay UK tax?

**Q17 Mr Bacon:** Yes.

**David Metter:** Yes.

**Q18 Mr Bacon:** There was an article in the *Daily Telegraph* on 28 January in which it says—it may be incorrect, of course; it was in a newspaper so there is always a chance it is wrong—"Mr Metter did not respond to our questions asking whether he"—sorry, wrong sentence—"Nor did he answer whether he pays UK tax", but you do, you are not a non-dom?

**David Metter:** I am: I am South African. You should be able to hear that in my accent. I am South African, and I am classified as a non-dom.

**Q19 Mr Bacon:** You are a non-dom?

**Q20 David Metter:** But I work in the UK, and I receive my dividends from UK companies, so I pay tax on that.

**Q21 Stella Creasy:** What about your company?

**David Metter:** Sorry?

**Q22 Stella Creasy:** What percentage of the shareholders in your company are registered in the UK?

**David Metter:** Innisfree Ltd is a UK based company.

**Q23 Stella Creasy:** So it is not based in Guernsey?

**David Metter:** No.

**Q24 Stella Creasy:** You have no shareholders based in Guernsey?

**David Metter:** We have shareholders based in Guernsey. I am actually.

**Q25 Stella Creasy:** What percentage of the shares in your company is based with people who are based in Guernsey, or companies, or perhaps banks?

**David Metter:** 72%.

**Q26 Stella Creasy:** So 72% of the shareholders in your company would not pay tax on UK dividends.

**David Metter:** They do: the only benefit you get for holding these shares offshore—and there are not that many these days—is a capital gains tax benefit. You have no benefit on UK source income.

**Q27 Stella Creasy:** What would you estimate that capital gains tax benefit for your shareholders to be?

**David Metter:** I can refer you the latest Finance Act; they keep changing it every year. There are complicated arrangements, which have to do with capital gains tax and how capital gains tax is paid if I personally was to dispose of my shares.

**Q28 Stella Creasy:** With respect, we are not talking about your own shareholdings. We are talking about your company, which obviously has a substantial investment in the UK. As a result of PFI it is making a lot of money, is it not? It is those shares, and what capital gains tax is paid on them.

**David Metter:** There is a difference; there is me, who is the shareholder in Innisfree, who is a non-dom. I have said to you that any dividends—and you read about them in the press—that are paid to the Innisfree shareholders are subject to UK tax, because they are UK income arising. Let me finish, let me get through this. They are subject to inheritance tax. The only benefits of holding these shares offshore are capital gains tax dodges—they are not even that good any more—and that is a concession made to non-doms by Her Majesty's Revenue and Customs.

**Q29 Stella Creasy:** What sum do you assess that benefit to be?

**David Metter:** I would have to sell my shares in Innisfree.

**Q30 Stella Creasy:** But your company; I am not talking about your own personal tax situation, I am talking about your company's tax situation.

**David Metter:** My company is based in the UK, so it pays tax in the normal course. All our investments in UK companies.

**Q31 Matthew Hancock:** Can I come back to the question of value-for-money from PFI? You said earlier that the average cost of the debt was 5.7%, was that right? Could you tell me on what debt that figure is based? Give me a bit more background about that figure.

**David Metter:** About our sample?

**Q32 Matthew Hancock:** Yes, you have mentioned that the cost of capital was 5.7%, and you said you thought that was very good value given the difficulties in the financial markets that we have seen in the last couple of years.

**David Metter:** We did this on a sample of 20 projects.

**Q33 Matthew Hancock:** Past projects?

**David Metter:** We did this on 20 past projects, where the project capital was £5 billion.

**Q34 Matthew Hancock:** Are these UK projects?

**David Metter:** All UK projects. The total equity capital was £493 million, and the financial close for these projects happened between 1997 and 2007. It was a sample of 20 projects, and we have given this information to the NAO as well—

**Q35 Matthew Hancock:** Sure.

**David Metter:** —over a 10 year period. And looking at those projects, which were mostly large projects, the weighted average cost of capital was 5.7%.

**Q36 Matthew Hancock:** What was the spread on that?

**David Metter:** The spread was 2.2%. The reference gilt was 3.5%.

**Matthew Hancock:** 2.2%.

**Chair:** This was pre-2008.

**Matthew Hancock:** This was before the financial crisis, which pushed up your spreads. Of the financing cost about a third is spread over gilts. You can work out from that the amount of extra interest paid because these were procured through a PFI route. Do you have that figure?

**David Metter:** I would say 2.2% per annum is the extra cost of the PFI project.

**Q37 Matthew Hancock:** Do you have that in a nominal sum?

**David Metter:** Sorry?

**Matthew Hancock:** Do you have that in a pounds figure?

**David Metter:** No, but it would be 2.2% of whatever the number is. If the capital in the PFI programme is £65 billion, it is 2.2% of £65 billion. Is that right, Graham? Sorry, I have to ask Graham. It is 2.2% of £65 billion, which I used to be able to work out.

**Chair:** It is £1.3 billion; we have worked it out here.

**Matthew Hancock:** £1.3 billion. Okay. In order for you to make this argument for 5.7%, even before the financial crisis, and a spread of 2.2% over gilts, you have got to argue that that extra cost of financing, that £1.2 billion extra in interest, is worth it in terms of the extra value. Can you set that out?

**David Metter:** When I arrived in the UK back in 1974 my first job was on the Thames Flood Barrier project, which not many people will remember here. That was a classic example of what was going wrong with UK procurement; the project was hundreds of millions of pounds overdue, the procurement process was flawed, the contractors spent most of their time filling in claims forms. UK procurement was in the most terrible state: there was very little trust between the private sector and the public sector.

**Q38 Matthew Hancock:** £1.2 billion is a very high price to pay to get some management ability.

**David Metter:** That is the judgment, whether the extra costs of PFI, this extra 2.2%, is worth—

**Q39 Chair:** I keep saying this: it is not fair to say 2.2%. It was 2.2% pre-2008. We have got to look at what the extra cost is today, and it is more than that. It is 6% to 7%, which on £60 billion is a lot of money.

**David Metter:** People have to judge whether the trade-off, where we are getting the private sector to manage effectively the procurement process, more than offsets the problems. Look at Edinburgh Trams: it would be worth spending time evaluating that project, and seeing the procurement failure on that project. It would be worth looking at the Scottish Parliament. These are not the Thames Barrier 25 years ago, or the British Library 20 years ago: these are projects today. The Edinburgh tramlink is an embarrassment to everybody, and it is a procurement failure; equally the Scottish Government building. This is what happens. One can say the public sector ought to be able to do this all well, and they ought to be able to have the right kind of resource to do it, and intellectually there is no reason why the public sector should not be able to procure as well as the private sector, but the fact is that experience shows it does not happen.

**Q40 Mr Bacon:** Can I take you up on that? Looking at PFI, this is a problem I have been wrestling with for the 10 years I have been on this Committee, because, like you, I think intellectually one ought to be able to do it. If you hire enough bright civil engineers and quantity surveyors in the public sector you ought to be able to get the job done. You are absolutely right about the British Library. Portcullis House was a conventional project we looked at on this Committee years ago; I am told that it would have been cheaper if they had clad the windows with seven-series BMWs than what they did. I take your point; there has been a lot of procurement failure with conventional routes. I looked at a project in Northern Ireland, two identical high schools, about £7.5 to £8 million each, same number of pupils, same socio-economic profile of the catchment area; one was PFI and one was not. The conventional one delivered exactly what it was supposed to, the PFI one ended up not doing so, because in order to accelerate the rate

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of return for the investors they used some of the land that might have remained as playing fields for the school, lopped it off, and built houses on it. I have seen hospital projects in Northern Ireland where they have managed to do it, on cost and on time, by having the right people on the public sector staff. Why do you think it is that so often that has not been the experience?

**David Metter:** It goes to the heart of public sector productivity. There are huge problems in public sector productivity, which have to do with incentivisation. I am no expert on this, but people coming into the civil service do not choose to work in procurement. There are other jobs in the civil service that are much more interesting and much more attractive, perhaps, to high fliers. Procurement in the past has not been the place where your bright young fliers have arrived.

**Q41 Chair:** I am going to bring in Mr Doughty to answer, because I feel conscious we have not heard from him. Mr Doughty, what is your view on whether or not we are getting a good deal? Mr Metter thinks we are, do you?

**Bill Doughty:** You are getting a good deal: there have been in excess of 700 projects done.

**Q42 Chair:** How do you measure a good deal? We know how many have been done and how much they cost; we want to know whether you are ripping us off, or whether you are giving us good value for money?

**Bill Doughty:** The difficulty with these things is that the measure of whether you are getting a good deal or not is what risks you have avoided, and whether we have managed to avoid those risks through procuring through the private sector. If there were just a series of private sector disasters, then you would probably sit there and say, "Thank God we did not have that visited upon us". The fact that we have done it very well means that all you can compare it against is your track record in other forms of traditional procurement. The aegis of PFI was because that record was not very good in the past. The disciplines about the provision of long-term infrastructure, its maintenance and its upkeep, etc, in the past have been very poor. One of the disciplines in PFI has been that people are forced to maintain infrastructure assets so that they live out their design lives.

**Q43 Chair:** To ask you two questions: the £74 million PFI that we had in NewSchools Cornwall had to be terminated. There are failures in PFI just as much as there are through the public sector.

**David Metter:** That was our project. I can give you some information.

**Q44 Chair:** It had to be terminated.

**David Metter:** It was terminated, but it was—

**Q45 Chair:** It had to be terminated, just to get it clear, with one headteacher saying they had to delay the staff term by three days because the contractor had not fixed the tiles on the roof properly. The council estimated it had to spend £10 million putting things right in the 28 schools affected. One school, Rosemellin Primary School, was paying £52,000 for

cleaning, catering, and maintenance, but they failed to fix a blocked drain for four years.

**David Metter:** Can I just give you a little bit of general context on that, because it was one of our projects, and we were very sorry to lose the money we lost on that, because we did lose a lot of money.

**Q46 Chair:** Probably the public sector lost a lot of value.

**David Metter:** That project was bid at a time when it was very competitive. In order to win that project, we had to agree with Cornwall that its direct service people would provide the services to our service offer. It was a complicated project, because their direct service operation was effectively taken out of Cornwall, and put into our services operation, so we were sandwiched between ex-Cornwall workers plus our PFI offer. It was always very difficult, because Cornwall were not fully supportive of the PFI project.

**Q47 Chair:** It is always somebody else's fault.

**David Metter:** No, no, no. We agreed to that, but the point about it is it was not as simple as saying, "This school was late". We were in a very difficult position, because we had to take on the local direct workforce, and what's more, when we came to try and fix the project, the head of the Cornwall local authority decided it would be better value for him to finish off the PFI project. People have that choice: at any point the Government can terminate PFI projects.

**Q48 Mrs McGuire:** Can I ask what the problem is about taking on the local workforce? Surely if you were going to manage the facilities on site you would have had to recruit from the local labour pool?

**David Metter:** Very often it is better to have one's own labour pool, but if you are taking on the incumbent workforce it is often very difficult to drive efficiencies. This has happened in the NHS as well. Often the deal to take on that local workforce is done in order to win the project, so there were slight problems that happened, and happened at that time. In order to win that project we had to take on the local direct workforce as part of our project.

**Chair:** So you estimated wrongly?

**Q49 Mrs McGuire:** As you entered into that contract you were aware that there might be issues, as you say, around driving efficiency?

**David Metter:** You go into these projects and you try very hard to drive the efficiencies, and you take on the workforce, often through TUPE, ancillary workers; you try and do this and you take on the services. Mostly it works, and sometimes it does not work. It did not work in Cornwall. In Cornwall, the ending was a happy ending for Cornwall, because they determined that they were better off doing it themselves.

**Q50 Chair:** The Wythenshawe Hospital is another of yours. I understand the asset is worth £66 million, but the cost to the taxpayer over 35 years will be £1.06 billion, 16 times the original capital value. Do you think that is good value to us?

**David Metter:** Adding up nominal numbers is not fair; it is voodoo mathematics. One has to look at the present value of these costs, not adding up.

**Q51 Chair:** That is such a gap.

**David Metter:** If you take the 1913 war loan of £1.3 billion, or whatever it was, if you add up the future liabilities on that war loan, they exceed the entire PFI programme.

**Q52 Chair:** £66 million to £1.06 billion?

**David Metter:** One has to look at that in present value terms. With these very long projects, you are escalating the nominal amounts, and that is what happens: we constantly face this kind of mathematics, where people are not looking at it in real or today's values.

**Q53 Chair:** Would you like to do a note to this Committee justifying the £66 million to the £1.06 billion?

**David Metter:** I would be very happy; Wythenshawe is one of our projects, we would be very happy to explain it to you.

**Q54 Chair:** If you can do us a detailed note, which shows a justification of that, we would be happy to receive it. It seems to me, looking crudely at these figures, they look potty. Have you agreed to do that?

**Graham Beazley-Long:** It is very simple. We will set it out.

**Q55 Chair:** Right, thank you.

**David Metter:** Most of them are service costs, they are not capital costs.

**Amyas Morse:** I just wanted to add to what you were saying, David. First of all, of course you cannot exclude time interval in these calculations; I appreciate that. I just wanted to make sure I had understood what you were saying earlier on: what I think you were saying was that in order to get efficient procurement, you need PFI deals, more or less. I am not trying to put words in your mouth; I am trying to understand that. Is it not the fact that you have got contracts in place that mean you cannot change the rules halfway through? That makes the difference, not necessarily the full panoply of PFI? The fact you have got outside private financing, and there are very strong conditions on that financing, and those conditions cannot be done away with without considerable damage, keeps everybody honest, so to speak. Isn't that the benefit that keeps things where they should be, rather than simply saying it is some miraculous expertise about private management? Do we really need to have the whole of PFI in order to achieve this better procurement, or would you advise that it can be achieved in other ways?

**David Metter:** This is all just opinion. We have 57 projects; we have asset managers that manage these 57 projects. They wake up in the morning, they go and they look after these projects. Our customer satisfaction across our projects is very high. If the Government Departments were doing this, would they be getting the same service? Would they be able to solve the problems? We had huge problems in the

financial crisis with monolines going broke, and all sorts of financial issues; we had problems with contractors, we had problems with our public sector customers. This all has to be managed, and I think we do that very well. It is easy to test that by going back; we have been doing this for 15 years, and that is a long enough period to have a look. Go to all these hospitals, schools, and railway lines, and ask them the questions. Say, "Do you think these work?" Mostly our public sector customers are very happy.

**Amyas Morse:** I was not trying to suggest that you do not do a good job; I was on another matter, which is, do you need these to do the job?

**David Metter:** Let somebody else do the job.

**Amyas Morse:** No, I was trying to ask you: do you need the full panoply of the various elements that are in a PFI deal in order to secure the rigour that comes from being contractually bound with third parties? I am not saying: are you doing a good job? I am saying: is the only way to do this by having the full complexity of a 25 or 30-year PFI deal? I would be interested to hear what your advice is.

**David Metter:** I will tell you what's happening in Canada at the moment. They are changing the models, and it is quite different. In Canada a lot of the debt that is raised in the capital markets only lasts for the construction period, and then after that the Government comes in and replaces all the construction finance. At that point it is left with the equity and the public sector partner. We can be got rid of, the service contracts can be changed. There is lots of flexibility in changing the process as one goes along.

**Q56 Chair:** Is it better? The model that has been suggested is that the service and management contract is not part of the PFI.

**David Metter:** In a lot of PFI projects there are no soft services, so that takes out the food and cleaning.

**Q57 Chair:** "Is it better?" is the question you are being asked, not "What is?" Is it better? Would we get better value for us, the taxpayer; for you, as a British taxpayer?

**David Metter:** If you took services out? Maybe. The key challenge in PFI to date has been the construction and delivery of the projects.

**Q58 Chair:** Yes, the capital cost.

**David Metter:** If you build a huge hospital project, it is managing the construction, the commissioning, and the operation. Now if you could say, "We will put a whole lot of new managers in to manage the services now", maybe it could be done very well, I do not know. All I know is that we have responded to Government invitation to operate in those projects, and that is what we do.

**Q59 Chris Heaton-Harris:** I have got three quick questions I would like to pose to you both. Firstly, are your companies co-operating with the new Treasury code of conduct in these matters? Secondly, you are often making savings by refinancing, and there is always a pressure for making savings on these deals. If you do make savings on these deals over time,



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would you think of offering to share some of these savings with the taxpayer?

**Austin Mitchell:** Voluntarily, of course.

**Chris Heaton-Harris:** Thirdly, how big are the savings that you could make over the course of a contract? If you have got a 25-year contract, if you refinance in 10 years' time when interest rates are a lot lower, you could make a decent sum of money I would assume. What sort of money do you think you would be able to save in the course of a contract?

**Chair:** Shall we go to Mr Doughty first?

**Bill Doughty:** In terms of the answer to the first question, compliance with the code of conduct, the answer to that is yes. In terms of sharing savings, the question is how the savings arise. If we can work with our public sector counterparts to look at the scope and the usage of the asset and those types of things, and there are savings to be made, then the benefit of that should repair back to the public sector counterpart. Where we are making efficiencies on things like insurance under contracts—there are insurance sharing mechanisms already in place—the number of other opportunities for the equity owners and equity managers of these projects to make savings outside of the obvious one of refinancing, which you have highlighted, and there is already a code of conduct that covers that, is very limited.

There are many other facets in projects, for example, life cycle and long-term maintenance of assets, where there may be savings to be made in some projects, but unfortunately you have to wait 30 years before you work out whether you can do that. There are also losses that we make along the way, and absent currently is any mechanism where, if we are going to share savings, we have reciprocity around losses. If there is a matched or better bargain to be struck around that then—

**Q60 Chair:** Can you give us an example of a project you have lost money on?

**Bill Doughty:** I will express it in financial metrics, because we have—

**Q61 Chair:** Can you just give me an example?

**Bill Doughty:** Of a project where we lost money?

**Q62 Chair:** Where you lost money.

**Bill Doughty:** In the past I was involved in the National Physical Laboratory, and we lost a substantial amount of money.

**Q63 Chair:** That was PFI?

**Bill Doughty:** That was a PFI project, yes.

**Q64 Chair:** And have you lost money on anything?

**David Metter:** Me? Cornwall. Also Dalmeir in Scotland.

**Q65 Chair:** I was going to ask Mr Beazley-Long to answer the questions that Chris Heaton-Harris put.

**Graham Beazley-Long:** All three, or just the refinancing one that Bill hasn't answered?

**Chair:** All three.

**Graham Beazley-Long:** I do not think the Treasury has started consulting on its code of conduct, but we

will be very willing and open to discuss with them whenever they are ready to do so.

**Chair:** So you are not abiding by it.

**Matthew Hancock:** I do not think that is true, I think the code of conduct—

**Stephen Barclay:** The Treasury minutes of March 2011 refers to the further voluntary code of conduct within the PFI industry, so what you are saying, as I understand it, is the Treasury has not got round to sharing that with you.

**Q66 Chair:** Paula, can you help us on that? Where are we on it?

**Paula Diggle:** Are you talking about equity sharing?

**Stephen Barclay:** I was guessing you were referring to the old code not the new?

**Mr Bacon:** The refinancing one is old hat.

**Graham Beazley-Long:** The refinancing code of conduct we will of course follow, yes.

**Paula Diggle:** If you are talking about debt refinancing, there is a code of conduct on that, yes, certainly.

**Q67 Chair:** Are you complying with that?

**Graham Beazley-Long:** Yes. I thought you were referring to the code of conduct that was mentioned in a recent Treasury—

**Q68 Stephen Barclay:** It was. I can give you page 5, paragraph 4.2 of the March Treasury Minutes to be precise.

**Graham Beazley-Long:** Yes, I would suggest you ask the question to the gentlemen behind us. We would be very willing to talk to them when they are ready. The second question was on sharing; I would agree with Mr Doughty about if we re-engineer a contract so that there are operating cost savings—which is what has happened on Romford and many other contracts. For example, Innisfree is an investor in the MoD main building contract where £1.1 million per annum of cost savings have been engineered out of our costs.

**Q69 Mr Bacon:** Mr Beazley-Long, can I just clarify, from what you were saying a moment ago, so far you have not yet had discussions with the Treasury about arrangements to share equity gains, although you would be prepared to do so. Is that what you are saying?

**Graham Beazley-Long:** I do not believe that code of conduct talks about sharing equity gains.

**Q70 Chair:** Say that louder: the acoustics are terrible.

**Graham Beazley-Long:** My understanding is I do not believe that code of conduct talks about sharing equity gains.

**Q71 Mr Bacon:** I do not have it in front of me, but I am looking at the article by my Parliamentary colleague, Jesse Norman, in the *Financial Times* from last year in which he says, "What we need now is a new voluntary code promising a modest across-the-board rebate. PFI consortia have played their part in rebuilding Britain's infrastructure, but

they must play their part in rebuilding the nation's finances too."

**Paula Diggle:** Mr Bacon, can I clarify? We are thinking about what we can do about equity sharing. We have not got to a stage in making proposals at this point: we are very happy to work on this.

**Q72 Mr Bacon:** I took it that that was the case. May I just finish by asking my question, which is, do you accept that PFI consortia have a role to play in helping restore the nation's finances in the way that Jesse Norman suggests, and that there is scope for PFI consortia, such as your own and others, to make a modest across-the-board contribution?

**Graham Beazley-Long:** Innisfree is a fund manager that runs four funds; the investors in those funds are predominantly UK pension funds. You as a Government have the desire to continue to use UK pension fund, institutional money, in your infrastructure programme. If we were to go back to our investors and say that the UK Government wish to renegotiate its contracts, such that their returns would go down, I do not think that would be—

**Chair:** You are not prepared to share. As for the third question—

**Q73 Chris Heaton-Harris:** There is a new code of conduct that is coming out in July, and you have so far been refusing, as far as I am aware, to engage with the Treasury on that.

**Graham Beazley-Long:** That is completely untrue: we would welcome engagement with the Treasury on it, we have not yet been approached. They are taking their consultations elsewhere.

**Q74 Chris Heaton-Harris:** I will check with Andrew Rose later. On the soft services, you are getting to about £1.2 billion of service or maintenance contracts that you have renegotiated, or you had made a saving, and you were getting to the point where you were going to offer to share that with the taxpayer.

**Graham Beazley-Long:** 100% of that goes to the taxpayer. We do not take any margin on any of the savings that we make on any operational contracts, on the operations, and they go 100% to the taxpayer, and we have produced a list of those and sent them to the Treasury.

**Q75 Mr Bacon:** Can I just make my point while I am still on it? The point that you just made by way of answer, Mr Beazley-Long, which is a fair objection, was also made by Mr Norman in his article. He said, "There is an obvious objection: these are private companies with commercial contracts signed with willing counterparties, so it should be no part of Government policy to set aside, tear up, or rework these contracts." I understand that. Also it is particularly clear that where contracts have been on-sold, and institutions are investing in them and expecting to pay a particular price in order to get a particular return for a certain class of assets, there are going to be problems, but that is not to say that a modest contribution would be impossible on a voluntary basis. Going forward, the NAO Report suggests £200 billion worth of transport and energy

infrastructure projects that are coming down the pipeline. There may be scope there to increase the share that the taxpayer gets of any equity gains when they come along. I am simply asking you: do you think that it is reasonable for the Treasury and Departments and authorities, on behalf of taxpayers, to ask to share in equity gains, both ones going forward, and perhaps, to some extent, ones going backwards?

**Graham Beazley-Long:** On new deals going forwards, you can set out the terms and conditions of the transaction that you wish to do. The Treasury, IUK, would have a view on whether that pushed up the costs of capital, because of the equity sharing mechanism or not.

**Chair:** I think we're getting into negative noise. I want to draw this to a close.

**Mrs McGuire:** I want to clarify the engagement between the sector and the Treasury, because there is some confusion here. In the *Financial Times* in February it said that, "The Treasury is struggling to get investors in private finance initiative projects to give it a rebate on the £8 billion a year the public sector spends on such deals in order to help with the governments swingeing public spending cuts." It also goes on to say that, "After six months"—so this is in February—"of, so far, inconclusive talks, the Treasury says it continues to seek a voluntary code of conduct". Could I ask you, Mr Doughty, have you had any engagement with the Treasury to get involved in a voluntary code to look at a rebate on the £8 billion that is spent on PFI?

**Bill Doughty:** Yes.

**Q76 Mrs McGuire:** Innisfree?

**Graham Beazley-Long:** We have had plenty of discussions about reducing costs.

**Q77 Mrs McGuire:** I am asking specifically about this. Mr Doughty says that he has had an engagement with the Treasury—

**David Metter:** We have had discussions, but we have said no.

**Stella Creasy:** But you have said no, so you are saying—

**Q78 Mrs McGuire:** You have said no, that you are not going to get involved, as opposed to—

**David Metter:** Can I make a point, because it is really very important: the PFI programme costs £130 billion in today's money. Half of that, £65 billion of it, is service charges, which are paid as you go along. There is lots of opportunity there to change and re-gear those contracts, so there are opportunities for savings in that package of services, which is ongoing, and we are supporting that carefully. Of the other £65 billion, which is the finance, this has been entered into through long-term financial contracts by parties acting in good faith in both sides. It is no different to an investor buying a gilt: would you go to gilt investors and say, "Can you take a little bit less interest to help the British taxpayer?" If you do it is called a haircut, and everybody is terrified of haircuts. If we go to investors and say, "This rebate they are talking about

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is, in fact, a haircut, a rescheduling of your investment”, it would be very bad for UK credibility.

**Q79 Mrs McGuire:** I am not asking whether or not you are going in for a haircut, I am asking for clarification.

**David Metter:** (I need a haircut.)

**Mrs McGuire:** (I think probably you and I share the same hairdresser by the look of your hair.) Can I ask Mr Beazley-Long to confirm what he said, because unless I picked him up wrongly there was a strong implication that there had been no engagement with the Treasury on this voluntary code.

**Graham Beazley-Long:** We have lots of engagement with Treasury, and lots of discussion.

**Q80 Mrs McGuire:** No, that is not what I am asking; do not try to work around it.

**Graham Beazley-Long:** I do not believe we have had a specific discussion about a piece of paper—

**Q81 Mrs McGuire:** You have had a specific discussion?

**Graham Beazley-Long:** I do not believe we have had any specific discussions about a piece of paper called a code of conduct.

**Mrs McGuire:** Right. Thank you.

**Q82 James Wharton:** I might be alone in this, but I have a little bit of sympathy with you as private contractors, because you have made a deal with politicians, and it is always very difficult, because when we realise that you might have got a good deal out of it, we do not like it very much. That is what we are starting to feel now; the state of the public finances in particular is driving a desire to get a better deal, both looking backwards and going forwards. What I would like to explore and get your feeling for is, if, looking at future contracts, the Government, which is a monopoly buyer effectively with PFIs, tries to push for a more flexible deal, tries to push for equity sharing and getting some of these benefits that we are talking about that are being discussed, and putting in forward-looking provisions for potentially getting rebates, what impact do you think that would have on actually driving up the base cost of PFI anyway, and what impact do you think that would have on yourselves as commercial operators who are trying to deliver these programmes?

**David Metter:** All I can say is that we look at the returns that come out of these projects when we are asked to bid for them, and we have a certain return range that we look for, because we know we can raise funds to invest on that basis. Currently we need to get about 8% to 10%. If the models are changed and we find that extra deductions have to be added in, that might drop us below our thresholds. That is the negotiation: that is how PFI developed. It was a long development and negotiation between quite sophisticated parties about what trade-offs you have to make to make this whole package work.

**Q83 Chris Heaton-Harris:** Did Mr Doughty not just say that he is willing to talk to the Treasury and look at this in the future? So why not you?

**David Metter:** We talk to the Treasury all the time. We have said we cannot go back to our lenders and our equity investors and say, “Take a haircut”.

**Q84 Chair:** But you do not agree, Mr Doughty, do you? You can.

**Bill Doughty:** What David is saying is—and he has been quite precise and accurate in his answer—that there are certain constituents where it is impossible to go back. In our communication with the Treasury we have identified those. They did not take much identification, because the Treasury is fully aware of those things. There are areas in these projects where they are potentially perhaps over-scoped; services providers are being remunerated for services that they do not need to provide, or that the public sector does not require. That is just a waste of money. Graham has said that, in the circumstances where they identified those, 100% of the benefits of that were going back to the public sector counterpart.

There are other areas, but what you cannot do is to say, “Let’s take an overarching view and everyone puts their hand in their pocket for a percentage of the return”. It does not work that way. You can look specifically at each respective partnership and look to see where there are savings that can be made, and where those savings can be repatriated to the public sector, we are very willing to do that.

When it comes down to equity returns, if you are going to look at contracts in the future, and you perceive, based on some of the information that has been provided in reports, by us or otherwise, that the private sector is making an unacceptable return, then you must stipulate what you think the right return is; and if you believe that there should be a threshold above which you are entitled to a share then I am sure there would be no embarrassment and no resistance to that being incorporated into contracts. I have seen it in other types of project financing where that exact model occurs.

**Chair:** The incentive is not to reach the threshold.

**Q85 James Wharton:** Mr Metter, you are saying that in order for PFI to be viable commercially it needs to provide 8% to 10% return roughly.

**David Metter:** Sorry, it needs to?

**Q86 James Wharton:** 8% to 10% return.

**David Metter:** That is what we have found; Bill might be procured for less.

**Q87 James Wharton:** What I would like to understand is, if the various deliveries of PFI schemes have got this level of return, which of course they have, which they need to deliver, then all of the discussions we are having, all of the things the Government are looking at to save money on future PFI procurements will, unless they are driving efficiencies, reduce that return which the private sector—

**David Metter:** The service pack, at £65 billion, does not impact upon our returns at all, it is a straight pass through. These are revenues collected from Government and paid straight out to service providers, so that does not affect our returns at all.

**Q88 James Wharton:** What my concern is—and you can tell me what you think the likelihood of this being a danger is—that if the Government find ways to drive efficiencies from future PFI contracts, all that will end up happening is the market will react to that by driving up the base costs, and everybody's competing bids will go up in price to reflect that change that the Government has brought in, in the way the contracts are structured. Overall the taxpayer will not save any money at all. Therefore, we have got to decide: are PFI's about as efficient as they are going to get, in which case, are they the way we want to do procurement, rather than focusing all our energy on debating the actual detail of PFI contracts as they exist today or might exist in the future?

**David Metter:** One has to look at detail, but I can tell you something: all this talk of rebates and haircuts adds political risk into the whole equation. We have investors who say, "Is this Government going to honour the obligations of a previous Government?" These are transactions you entered into in good faith. We had a lot of problems raising money in the early years of PFI because of this question mark about how trustworthy is Government? We find that when people talk about rebates, the people who have entered into these contracts may think, "Hang on a minute, our returns are going to be cut, arbitrarily, by our customer". I do not think that will ever happen; why would the British Government ever do that? But the fact is that people talk about it and articles are written about it, so we are hammered about it. It gets into the investor's minds. We have investors who say, "Until all this stuff calms down, we are not investing in your funds".

**Q89 Austin Mitchell:** I am sorry to hear that when Government is telling us, "We are all in it together", you are not quite in it together. I wonder if I could just put it to you, as an outside admirer, that you have got a pretty good racket here, have you not? Here you are with contracts at a guaranteed return over 25, 30 years, in which you are providing services, again, with a guaranteed charging rate. At a time when Government is examining every public service through a microscope to see what they can cut and who they can fire, your return rolls on, and your money comes in whatever you do: it is guaranteed. You have purchased that, and you are not prepared to share it with anybody else retrospectively. This is an insane situation, isn't it? Here we have manufacturing, which is looking to make a return of base rate plus a couple of per cent, not much; you are on a return of base rate plus 6%-8%—quite a high return—every public service has been examined for cuts, yours are not. The efficiency savings you make, and any savings from scale you make, go into your back pocket, not into the public purse. That is a pretty good racket.

**David Metter:** It is a nice story there, but the fact is that the services which represent half the cost are benchmarked and market tested every five years, and the Government can take services out. This idea of these long-term service contracts that last for 25 years that can never be changed is just incorrect.

**Q90 Austin Mitchell:** Is that true of all your service contracts?

**David Metter:** All the service contracts can be adjusted. They are subject to market testing and benchmarking.

**Q91 Austin Mitchell:** Huge returns on putting in a light bulb are mythical?

**David Metter:** Imagine, if the private sector had been asked to take those risks at the outset, how expensive these projects would have been. They had to be reset every five years, and that is what happens.

**Q92 Austin Mitchell:** But your management services are not subject to—

**David Metter:** You come to the capital side: if you borrow a mortgage for 25 years, and the Halifax gives you a mortgage for 4% for the 25 years, that is what you are buying up to. You can change your mind at a later point, and maybe you can refinance that mortgage, but that is how the finance is put in place. The Government does not want to pay out £1 billion of its own money to build a hospital: it wants the private sector to do that, and finance over long-term. That makes sense, because it is matching the payments to the use of the resource.

**Q93 Austin Mitchell:** You are still a very happy man.

**David Metter:** We work hard.

**Q94 Stephen Barclay:** Can I come back to your evidence earlier, where you talked about pricing in the management of risk? Are you not also pricing in the knowledge that, but for yourselves, Government will not fund certain projects that they have to do? There is a regulatory imperative, as there was with the Manchester incinerator, or there is a defence imperative, as there was with the air tanker where the discount rate was adjusted and the Treasury rate at the time was not applied—an out-of-date rate was applied. In other words, Government does not want to fund things and so you are able to charge over the odds, knowing that they have to do things which they will not pay for?

**David Metter:** Can I say one thing? You cannot charge over the odds, because these projects go out to competition. There are lots of procurement rules, they are not only governed by UK law, they are governed by EU law. You cannot just go and get a project for a big price; there is competition. There is keen competition for all these kinds of infrastructure projects. The public sector can be confident that they are getting the right price; they are going to Tesco and they are getting the price—

**Stephen Barclay:** I just wanted to clarify—

**Mr Bacon:** It is an oligopoly. Sorry, Stephen.

**Stephen Barclay:** I want to clarify: the earlier exchange with Mr Hancock, that is purely on the management of risk in terms of low fees? That is fine. Can I ask about insurers, because insurers are not active in this market? There are questions about whether that is to do with regulation. Insurers would add to competition.

**David Metter:** Graham is an expert on insurers.

**Q95 Stephen Barclay:** I would welcome your thoughts as to why in your view insurers are not active in this PFI market.

**Graham Beazley-Long:** Insurers of what risks?

**Q96 Stephen Barclay:** Since Equitable Life, using bonds: if one looks at the funding of the Channel Tunnel—

**Graham Beazley-Long:** Why are institutional investors not buying the debt of projects?

**Stephen Barclay:** Yes.

**Graham Beazley-Long:** They do not like construction risk. Up until about two years ago we had monoline insurers who gave bonds a AAA guarantee, and the investors felt that that gave them something and enabled them to buy debt in riskier projects. The investors buying debt bonds are very interested in buying long-dated income flows. The Treasury Select Committee discussed this yesterday, but once a project is completed, raising bond finance at that point would be quite easy. Raising it prior to construction at the moment is proving quite difficult in the UK, although as David said, just last week one of the projects in Canada raised C\$1.3 billion in that way, and a handful of Canadian investors are prepared to spend the time to understand construction risk and pricing, and are buying those bonds when the deal closes.

**Bill Doughty:** It is not correct that they are not involved. Organisations like AXA and Norwich Union are substantial financiers and debt providers in PFI projects, and the General Practice Finance Corporation was originally backed by Norwich Union. The way that the returns went pre-2008 was what saw them exit the market. Whether they are still excited about it, and whether now, if it carries on with slightly better margins, they would come back in again, who knows?

**Graham Beazley-Long:** Those three or four investors that do understand it are doing it privately and they are not public bonds.

**Q97 Mr Bacon:** Mr Metter, you said earlier that there was a potential risk element to this, and your potential investors are saying, “Can we rely on the Government not to break its word or to come back for a haircut”, so to speak. I suggest to you the reason why there is the political risk is that people are hacked off with the behaviour of the PFI sector. About seven or eight years ago I met a securitisation expert in an investment bank, who was involved in the PFI sector, and he said, “I like PFI. It is a good source of income, it is good for the business, but as a taxpayer it really pisses me off.” That is when I first woke up to the issues around PFI. He said, “There are about 100 people in London making £1 million a year out of this”. According to a newspaper—again, it is only a newspaper, so it may be wrong—the *Daily Telegraph* of 28 January reported you as getting pay and dividends of £8.6 million last year. Is that correct?

**David Metter:** That is correct.

**Q98 Mr Bacon:** You are paid more than the chief executive of the Royal Bank of Scotland, whom we had here the other day. In an environment when the whole country is going through a tough time, here are

you paid more than the chief executive of the Royal Bank of Scotland—

**David Metter:** Can I respond to that?

**Q99 Mr Bacon:** I have not finished my question yet. It speaks to your behaviour. The Norfolk and Norwich Hospital, which is in my constituency now following the boundary changes, is owned by Octagon Healthcare, or was, in which you were a 25% shareholder at the time of the refinancing. At the time of the refinancing, the repayment period for the hospital was extended, from 34 years to 39 years, increasing the total cost to the taxpayer, and at the same time the internal rate of return for the shareholders—this was in a National Audit Office Report at the time—went from 18.9% to over 60%. It more than tripled. So costs to the taxpayer up, and the internal rate of return for the shareholders up through the stratosphere. That is what people do not like; that is why people turn on you. I fully understand your concerns and your discussions with investors. I find it very difficult to see how you can get money out of a project that has already been sold on, frankly. But the reason people are pissed off is because of your behaviour, frankly, and the behaviour of people like you, and if you do not understand that then you should go back to your investors and start talking to them about why people think there is a political risk.

**David Metter:** Could I respond to some of that? The first thing to say is Norfolk and Norwich is a very successful hospital: there is a high degree of customer satisfaction. People are very happy with the amenity in Norfolk. It has actually transformed—

**Q100 Mr Bacon:** I go there a lot because it is in my constituency, and my second child was born there. I can tell you, one of the lifts was out of order for about 48 to 72 hours. I accept it is a good hospital, I do not deny it for one minute.

**David Metter:** Okay, so the hospital is good. This refinancing gain is like an urban legend, it keeps coming back, but for every large refinancing gain that was made at that time there were big losses, like the National Physical Laboratory. We altogether, through five projects, made financing gains, £55 million in total. This was a time in the market when the cost of finance got cheaper, and the reason why the cost of finance got cheaper was that the investment community and the investment market started saying, “The British Government are good people to do business with” and so the cost of doing the business got cheaper.

**Q101 Mr Bacon:** And global interest rates were falling. But my point was the nature of the deal was to increase the cost to the taxpayer by lengthening the repayment period, adding on debt to the project and accelerating the return of the shareholders all at the same time. Nice work if you can get it.

**David Metter:** There was a tension between the Norfolk and Norwich Hospital and the Treasury at the time.

**Mr Bacon:** Yes, I know.

**David Metter:** They wanted to keep the gains from the refinancing, some of them, themselves. Actually,

for our £55 million of gains, the public sector got £65 million altogether, so it was not that the public sector was not getting anything.

**Q102 Mr Bacon:** Sorry, can I just clarify, that was because of the retroactive 30% voluntary shareholding, was it? Is that right? Sorry, is that right, when you say the taxpayer got £65 million?

**David Metter:** That was because of the refinancing code of conduct.

**Q103 Mr Bacon:** That was because of the subsequent retroactive code of conduct.

**David Metter:** I do not know if it was retroactive.

**Q104 Mr Bacon:** It was not at the time, it was afterwards.

**David Metter:** I do not think it was retroactive. But the point being was that Norfolk extended that contract: they got something out of it by extending the contract. It was a deal that was done between the private sector and the public sector. If I can just say one thing on your earlier comment, which is about reading in the press and then hammering me about it. Firstly, if you take Innisfree and its four funds—if it were a corporate, Innisfree would be a FTSE 100 company. We are not a small organisation. We have £1.1 billion of funds invested in UK and foreign infrastructure across 57 projects. We are not some small company. We are a lot more successful than some of these banks that have lost people a lot of money. We have not lost the taxpayers any money, and we have done our job pretty well. The fact is that we as a fund manager, one of 2,000 fund managers in the City, earn reasonable revenues, and these are a cost to our investors, they are not a cost to the projects. If we were paid absolutely zero, if I never got one ounce of dividend or one ounce of pay, it would not change the price of the PFI project, because that is won in competition. Our investors choose to pay us what they want in order for us to manage their money for them. And I can tell you something else: what we charge our investors is in line with the fund management market, and the fact that we are able to earn such good revenues is because we manage quite large amounts of money. Our investors can sack us without cause any day they like. We have not got any sinecure. Tomorrow our investors could pass a resolution, saying “Thank you very much, we have had enough of you, David Metter and your colleagues.” This is how the capitalist system works.

**Q105 Chair:** I will draw it to a close, I just want to know—very very quickly, because we have overrun—what proportion of Innisfree’s business is not public sector contracts?

**David Metter:** Can I include Canada and Sweden’s public sector, and the Netherlands? They are all public sector.

**Q106 Chair:** They are all public sector. The money you earn comes out of the taxpayer—

**David Metter:** No, the money we earn comes from our investors’ returns.

**Q107 Chair:** No, but the money in the end is funded through tax. Can I just ask two other things? There is a code on refinancing, which Mr Doughty said he stands by; I am less clear about Innisfree. If there were a code developed on the change of the asset value, would you both say you would not be interested in that?

**Bill Doughty:** Can I just clarify?

**Q108 Chair:** Just yes or no; the growth in the value of the asset. If there was a code about sharing the profits made in the increased value of the asset, would you be willing to participate in that?

**Bill Doughty:** Subject to the detail and the thresholds, yes.

**Q109 Chair:** Would you, yes or no? Very quickly, because we have really overrun.

**David Metter:** It is very difficult to say yes when we do not know what we are talking about.

**Q110 Chair:** The asset goes up in value over time; you benefit from that: are you willing to share some of that benefit with the taxpayer?

**David Metter:** You mean if the shares are sold?

**Q111 Chair:** Yes.

**David Metter:** We would be unhappy to.

**Q112 Chair:** And the running of the building, any efficiencies that you get out of that, would you be willing to share that?

**David Metter:** Absolutely, we do that.

**Q113 Chair:** Would you both? Okay. Can I just ask finally, are both of you engaged presently in negotiating new PFI contracts?

**David Metter:** We are active in Canada.

**Q114 Chair:** In UK?

**David Metter:** Not in the UK.

**Q115 Chair:** Are you in the UK?

**Bill Doughty:** No, that is not the market we are in. We are a secondary business, so we take—

**David Metter:** The UK market is getting too expensive.

**Q116 Chair:** Are you both committed to a more transparent system so that you can report your experiences, good or bad, to help us assess value for money?

**David Metter:** We have no problem declaring what price we buy and sell assets at. We have never had a problem with that. If the Treasury want to know that, it is our pleasure. We do not sell things.

**Q117 Chair:** What about you Mr Doughty?

**Bill Doughty:** Absolutely.

**Q118 Chair:** Good. Thank you very much indeed. We have overrun. Thanks for coming.

### Examination of Witnesses

*Witnesses:* **Andrew Hudson**, Director General of Public Services and Accounting Officer, HM Treasury, **David Pitchford**, Chief Executive, Major Projects Authority, Cabinet Office, and **Andrew Rose**, Acting Chief Executive of Infrastructure UK, gave evidence.

**Q119 Chair:** Welcome Mr Hudson, Mr Pitchford and Mr Rose, and apologies for keeping you waiting. The Treasury has championed PFI over time in the past, and I think some of us have some sympathy with the purpose of it, which was to renew our infrastructure when public finances were not freely available. Could you have done more to stop the taxpayer getting as ripped off as we feel we are?

**Andrew Hudson:** What we have done over time is to strengthen our guidances. We have always been committed to doing PFI when it is value for money. That was the principle that we operated under the policies of the previous Government, and since the election we have intensified that drive for value for money. Without accepting your accusation of being ripped off, we have championed it on the basis that people should go for PFI where it offers value for money for the taxpayer, and we have sought to learn the lessons as we go along and strengthen our assessment of value for money so that has improved over time, and we are continuing to do that.

**Q120 Chair:** Let me just put it to you, whether or not you accept it, this is a cross-party view on whether we have had value for money, it is not a partisan view, and I think cross-party there is probably a recognition that we may need a form of PFI as we go forward if we are going to continue renewing our infrastructure. There is a real interest in finding out what has worked, what has not worked, to inform future policy. One of the justifications, for example, has been transfer of risk. That is one of the ways in which you have attempted to assess value for money. To be absolutely honest, if you are looking at a 30 to 40-year period your ability to model that in a way that has any validity is pretty questionable. You cannot really assess the transfer of risk: am I not right in that? Does not all the evidence we have on the profit that appears to have been made by some of the companies involved—or the cost of the service provided—suggest that there has not really been a proper transfer of risk?

**Andrew Hudson:** I think we have. Our business case methodology does look very closely at transfer of risk. As I have said, over time we have improved scrutiny of business cases.

**Q121 Chair:** Do you really think you have done it? Do you really, really, really think that the assessments by Treasury properly reflect that transfer? I just think that is a laugh.

**Andrew Hudson:** Yes, I do, because this is an intrinsic part of the assessment. Some of the risks that have been transferred have come out in the discussion earlier on about what happens when something is not done, when the hospital is not maintained properly. Now, it is clear that that risk lies with the operator under PFI: that is being transferred, that is part of the deal. I remember in the late 1990s, when I was in charge of the Health team in the Treasury going round and visiting some hospitals where the maintenance

plainly had not been done and patients and staff were suffering because of that. That is an example of where PFI deals—properly done, properly specified, properly evaluated; I accept that this is absolutely essential if the taxpayer is to get good value for money out of this approach to procurement—have their place.

**Q122 Nick Smith:** Mr Metter was very bullish on that. What he said was, “Customer satisfaction rates are very high.” Is that your experience of all these PFI projects across the country, then?

**Andrew Hudson:** Mr Metter is an operator; he will know about his own business. I have not got data right across the board. But the experience is that these deals are now out there, they are happening and they are working. They are delivering the services. We certainly want to improve value for money wherever we can, and we are looking for opportunities to do that, for example the pilot that is going on in Romford about operational savings at the moment. We are not at all complacent about where things are, but we have done an evaluation and we expect the standards that have been set in those contracts to be delivered. If they are not, then the private sector operator is on the hook.

**Q123 Nick Smith:** How do you explain the contradiction? When I go to Ebbw Vale High Street, and like Mr Baker, I talk to people about PFI deals, they all say “isn’t it just a big rip off?” That is what we all think, but you are here saying that you think it works; Mr Metter is very bullish. Explain this contradiction to us.

**Andrew Hudson:** Your original question was about whether the services are being delivered, and Mr Bacon acknowledged a few minutes ago that the Norfolk and Norwich was a good hospital, while making his criticisms of the costs very plain. There have been quite a lot of media stories about rip-offs, and some high figures estimated. One of the points that emerges from the NAO Report—which we are working with them on, because we share their concern, and we discussed this with the Committee in October when we were last discussing PFI issues with you—is the question of equity returns, which is the topic that seems to attract most attention when people are discussing “rip-offs”. We share the NAO’s concern in the current Report that the information on this could be better, and we are doing a joint piece of work with the NAO to improve our understanding of that topic.

**Q124 Chair:** But if that is the case, why do you not accept that people can FOI private sector companies where they are involved in private sector contracts? Why did you reject that? Why the hell do we not do it now? I cannot see the reason for it. There is a public interest in knowing whether or not we are getting value for money out of these contracts that might sit in the private sector but are financed through the public purse. Why can’t we have FOIs on them?

**Andrew Hudson:** I was not involved in that decision personally, but I will answer the question. I think it is that these are private deals, they are commercially sensitive.

**Q125 Chair:** It is public money.

**Andrew Hudson:** I can understand; it is public money, but I come back to the point that it is about the inner workings of private sector companies, which are not subject to FOI in other contexts.

**Q126 Chair:** There is a suspicion around that we are not getting a good deal, and you think we are, and the previous witnesses also thought we were. One of the ways of killing this whole argument is to actually open up the books.

**Andrew Hudson:** If the issue is about greater transparency generally, then I come back to the point I was making, that with the NAO we are looking for ways of getting better information on equity returns.

**Q127 Chair:** Why not FOI it? Why not allow the FOI rules to apply? That gives you the transparency.

**Andrew Hudson:** For me, that opens up a wider range of issues about the applicability to FOI.

**Chair:** Why?

**Q128 Mr Bacon:** Surely the issue is your answer when the Chair asked that question first time around: these are private companies. Her point I am sure would be—as mine is—it is taxpayers' money, through the annual unitary charge, that is funding all of this. My concern is not merely that you cannot follow it all the way through and see what is going on; we as a Committee cannot, and the National Audit Office cannot, the authorities themselves cannot in the deals. If you look at page 17 of the Report, figure 2, “the Ministry of Defence identified the potential to transfer risk to the contractor on the Future Strategic Tanker Aircraft PFI contract. It had access to some cost data but was unable to determine if it was paying an appropriate margin for the aircraft, as it never gained visibility of the subcontractor costs.” So even inside these deals there is not sufficient transparency, let alone a high degree of transparency further back for committees like ours and for auditors. Where is the upside in not having this transparency? I will tell you where it is: it is for the people making the money out of it, not for us as taxpayers.

**Andrew Hudson:** I think I am right in saying, in the example you are talking about certainly, the procurement process began several years ago. One of the changes that I talked about, and one of the improvements we have made in the way we manage and assess the PFI procurement process, is to improve the transparency in deals. We have other initiatives underway to try to do that. If it is about transparency, then yes we do want to do more.

**Mr Bacon:** It is about transparency.

**Chair:** FOI is entirely about transparency. I was very careful to say we should be able to open up the books of these private companies where they are dealing with public sector contracts. You are limited in that way.

**Andrew Hudson:** As I say, we are pursuing the transparency agenda in different ways which we feel are more appropriate.

**Q129 Ian Swales:** At our previous hearing I remember speaking about the fact that these PFI deals suffered from a degree of obfuscation, in the sense that service contracts were wrapped up with capital and construction costs typically. I think that still is one of the problems, and as we heard from Mr Metter 20 minutes ago, he sees the provision of services as entirely different from the flow of capital on the back of the deals and is quite relaxed about how those service contracts might be managed, changed or whatever over the longer term. So I would first of all question what the risks are that we thought we were passing in the service contracts, but much more importantly I now understand from Mr Beazley-Long's evidence that the capital side of it is also in two parts. There is the risk associated with the construction, then there is the risk-free long period of capital receipt after that, and as he rightly said it is very difficult to sell bonds in a speculative construction project but it is very easy to sell bonds in a certain flow of public money later. A lot of these companies, like Innisfree, that have made a fortune have made that fortune extremely quickly because the value of a bond, for example, doubles if you halve the rate of return you expect to get. This is what we have seen. This is why these companies have made so much money, because we thought we were selling the risk over a long period, but actually we were only selling the risk over a short period. Now that there are certain flows of money coming in these bonds have effectively massively increased in value. I think both of those things, connecting service contracts with the capital and not understanding at what point risk occurs, are the reasons why we are sitting here having this conversation today.

**Andrew Hudson:** I remember our previous exchange about this. I will say something about the reasons why—so far at least—these services have typically been bundled in with the financing, and then I will ask Andy Rose, if I may, as a career finance professional, to talk about the financing aspect of your question. The reason for bringing the long-term maintenance and services in with the original construction in the deal is because the way the building is put together has implications for the cost of the maintenance. If we do construction completely separately from maintenance then there is less incentive—arguably no incentive—on the people designing and building the asset to do that in a way that makes it easy and economical to maintain. I guess to a lesser extent I accept the same would apply to how easy it is going to be to clean and things like that. But that is the reason. The thrust of PFI is to do a long-term deal that is not about getting a building but about getting a building that remains fit for purpose over the lifetime of the deal with an incentive on, as I say, the people designing and constructing the thing to do that in a way that maximises the chances and minimises the cost—



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**Q130 Ian Swales:** Are you seriously suggesting that by separating those things we would have had a whole load of buildings that had blind corridors and things that were impossible to maintain, that we could not have designed that out, and there is not then a separate market in the whole maintenance field?

**Andrew Hudson:** There are certainly separate markets. I am not saying we could not; what I would say is that we did not, all too often. I am coming back to incentives: you are right, clearly it is not impossible to put requirements on people building. In our public sector procurement we are looking to sharpen up our act, as we have been for some time, and there are initiatives in play that David Pitchford may be able to say more about, if the Committee would like, about how we do a better job at specifying how we have better skills available to do that. But if the incentive is actually with the company that is doing the design and construction, then they have a sharp financial incentive to get that right up front. That is what I am saying.

**Q131 Chair:** Andrew Rose.

**Andrew Rose:** This comes back, I think, to the first question about whether there was actual risk transfer. I think the reality is that risk can be transferred in a number of ways in a PFI deal. One is the upfront construction cost. I think there is plenty of evidence where contractors have taken cost overrun and protected the taxpayer from those cost overruns in the PFI model. Two is the equity, and that is obviously the topic that is being focused on today and we can come back to. Three is the debt side of this, and I think the reality is there a lot of banks who have signed up to very long-term loans that they would now say are below their own cost of funds. I think there has been real risk transfer by locking in some long-term margins. Four I think is the soft services, which we are talking about here. Some PFI contracts now do not have those in there, and they tend to be benchmarked every five years or so, so there is a price reset mechanism. Then the last one is—because PFI bundles these all into one contract—is there benefit by having the whole life cost of the asset priced upfront or not? One of the things being discussed earlier about the model that we heard in Canada is that having the public sector pay down some of the debt quite quickly after construction might be an attractive alternative and maybe provide more flexibility.

If I may, I'd like to maybe try to clear up a little bit on the earlier discussion of the code of conduct. So what have we done since the last PAC? One is we have issued some operational guidance around how public sector procurement authorities should try to get best value from their contracts, and that is consistent with the Cabinet Office initiative in a much wider sense. We issued some guidance about that, and then we floated a concept of a code of conduct, which we fully expect to sign up with, with the private sector. To be fair, I think there was some confusion. There was an old financing code of conduct. We plan on doing a new code of conduct once we have concluded the operational savings. We are very close to concluding. There is a pilot project in Romford where

we are doing a deep dive: this was something piloted after Philip Green's work with the Cabinet Office, where four pilot projects were identified, PFI being one of them. We are doing a deep dive into Romford; two of my colleagues are out there today. When we have analysed that, we will be giving advice to Ministers about what we feel to be the best way for the Government to engage with the private sector. At the moment that advice, until we have concluded that, has not taken place. We have not advised Ministers yet, and that will be subject to Ministers' decisions. I think why there is confusion around the code of conduct is while we have discussed it with these parties as a concept, and it is in the draft guidance from January, we have not yet presented to the private sector the code of conduct we expect them to sign up to.

**Q132 Chair:** I am going to pick up, because it is my local hospital, the Queen's Hospital. On my understanding of the way in which you are trying to cut costs, if I can just raise a number of issues. One is that there is a view that the standard on some of the maintenance is too high, and you are looking at things like cleaning contracts and whether it is too high. I just have to tell you, as the local MP, when I went into A&E and saw blood on the floor I do not think that the maintenance contracts are too high, and if that is the way you are cutting costs, it is going to make questionable service even poorer.

**Andrew Rose:** I am not sure why that view is held.

**Q133 Chair:** The other thing I understand you are looking at is, for example, taking the change of law reserve; as I understand it, were there to be a change of law, at the moment the risk of that happening is met by the PFI contractor. You want to shift that on to the hospital itself. My understanding is twofold: one, the Trust tells me that negotiating that out would cost them £200,000, and secondly the risk transfers to them and they are already in financial schtuck. I do not see the point of that either.

**Andrew Rose:** First of all, we have not yet provided any recommendations to Ministers about what we are going to recommend, so it is very hard for me to speculate on what Ministers will say. But to be fair, if there were a law reserve change, that would be money coming back to the authority.

**Q134 Chair:** But you are not looking at lowering maintenance standards and quality, are you?

**Andrew Rose:** Again, while I would like to go into some of those things, I feel—and I hope the Committee understands—that speculating on what Ministers say in terms of engaging with the private sector, some of which will be quite commercially sensitive negotiations—

**Q135 Chair:** I hate to hide behind that. I have an interest: my local hospital. I do not think Carillion provided a good service. If part of the negotiation to save money is a lowering of that already questionable quality of service, I am concerned. I think I have a completely legitimate interest in that.

**Andrew Rose:** I have heard no one talk about wanting to lower quality of cleanliness or anything like that. So while I understand the sensitivity of it—it is very difficult—however much it seems like hiding behind giving advice to our Ministers and having our Ministers articulate how they want to engage on this, that is the current state of that pilot project.

**Q136 Austin Mitchell:** I cannot see why you are sticking so obstinately to this claptrap Treasury line that it is anything to do with value for money. PFI is nothing to do with value for money: it was a means of getting hospitals and schools and things on the ground without having them on the public sector borrowing requirement. It was off-balance sheet financing of a kind that has brought such disaster in the neo-banking sector. It never had anything to do with value for money because the costs were inherently higher, the private sector bodies were paying higher interest rates, the civil service was not qualified to evaluate the terms they were being asked to inspect, and inherently it was going to be more expensive. So nothing to do with value for money. You might say that in the context of more expensive contracts, bad deals at an excessive rate of profit for the private sector, you are trying to get a little bit of value for money and desperately running after it with a little begging bowl, saying “Please give us something from the equity gains,” pathetically, but value for money was never a part of it.

**Andrew Hudson:** We evaluate the value for money in every deal that goes forward. That is a key part of the assessment process; it is a key responsibility of the Departmental Accounting Officer. As you say, where the financing cost will be higher, the point of the evaluation is to look at the other factors, the risk transfer and other things, to assess—

**Q137 Austin Mitchell:** What risks were transferred?

**Andrew Hudson:** —is this overall a better deal for the taxpayer? And that is the process that we have been going through from the start of PFI, and as I say we have sharpened up the way we do it and learned lessons over time.

**Q138 Matthew Hancock:** Can I just follow that question up, because we heard earlier that under the PFI contracts the interest costs are higher, and the argument is that you then have to balance that against the improved incentives and management ability of the private sector to deliver the contracts, so I understand that argument. Firstly, could you explain a little bit about how you make an assessment of what the costs would be under public sector direct procurement?

**Andrew Hudson:** What we do is work out what we call a public sector comparator.

So we look at the cost of delivering the service if it were done purely by the public sector and compare that with the bids that we get under the PFI deal.

**Q139 Matthew Hancock:** And has there ever been a case where something has gone ahead as a PFI deal when PFI came out as more expensive than the public sector comparator? I am not asking on average is PFI

cheaper or more expensive, I am saying was there ever a case?

**Andrew Hudson:** PFI deals only go ahead where they are value for money for the taxpayer.

**Chair:** That does not answer the question.

**Q140 Matthew Hancock:** Sorry, could you answer the question: are there cases where PFI deals have happened when the public sector comparator was cheaper?

**Andrew Hudson:** No, not aware of any.

**Q141 Stephen Barclay:** Can I just clarify on that: is that not because, if one takes the Air Tanker in 2004, the PFI project team advised that it would fail the public comparator test. It is for that reason that the comparator was adjusted with the discount rate, and also—that is why I pick those two from the various PFI contracts—if one looks at the Manchester incinerator, aside from the political imperative given the jobs in the north-west and the number of marginal seats up there in 2009, from a financing point of view that was done I think, from memory, at 350 basis points as opposed to 300 basis points. We had an exchange on it at one of our previous hearings.

**Andrew Hudson:** I will ask Andy to comment on those details.

**Andrew Rose:** The FSTA one was done many years ago, but my understanding is that the discount rate applied for new procurements changed from 6% to 3.5% for those procurements already in place: for all projects.

**Q142 Stephen Barclay:** At the time it was 3.5%, you went to what it was at the start of the contract. You changed your own guidance, in that sense.

**Andrew Rose:** My understanding—and again, this was many years before I was involved—is that it was consistent for projects that were being re-evaluated. They used the discount rate that was applied at the time the project procurement was evaluated, not the updated.

**Chair:** Had they used the updated rate it would not have been value for money. And because it took them so long to negotiate it, it is ridiculous.

**Q143 Stephen Barclay:** The reality is, there was a defence need to do it; that is why it was done.

**Andrew Hudson:** If I may say, while, as Andy Rose explains, this is the reason why the higher discount rate was used, I understand that VFM comparisons were conducted later at both the 6% and the 3.5% discount factor rate, and the NAO Report on the subject made clear that the deal was favourable on all but one of those value for money comparisons out of the eight that were done.

**Q144 Matthew Hancock:** But when we had the Department of Health in front of us they said that in a number of cases, the quotation was “PFI was the only game in town”; that is to say that the Treasury would not allow the spending as standard capital spending, so if they wanted hospitals they had to have hospitals that were not as good value for money as if they had been provided, directly procured. Now

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everybody knows that under PFI, or under direct public provision, you still borrow the money: it is just borrowed in a different way. However, the accusation from officials at the Department of Health was that the Treasury would not allow projects to go ahead if it was not PFI. Now, this happens to coincidentally fall into a political argument that PFI was used in order to keep spending off the balance sheet, which I am not asking you to comment on. But why do you think Department of Health officials felt that PFI was “the only game in town”, and direct, on-balance sheet procurement would mean that they would not get their hospital?

**Andrew Hudson:** There is always a constraint on public sector capital at any time, and so it may be, simply, that public sector capital is not available, in which case people will look at PFI to see whether that offers value for money for the public sector. The Treasury’s role is to ensure that where the use of private finance for the delivery of infrastructure projects is proposed that it offers value for money for the taxpayer.

**Q145 Matthew Hancock:** But PFI gives the public sector a string of future liabilities, so it is a debt in the same way, is it not?

**Andrew Hudson:** It is not a debt in the same way, in that we are buying something different. Rather than just buying a building, we are buying a stream of services and we are transferring risk in a way that does not happen under conventional procurement.

**Q146 Matthew Hancock:** Do you think that the Department of Health officials were wrong to say that, according to the Treasury, under the previous Government, PFI was “the only game in town”?

**Andrew Hudson:** I would have to study what the precise detail of that exchange was.

**Q147 Matthew Hancock:** The reason that they came to say that was because they were having to defend PFI hospitals that were shown to be more expensive under PFI than under standard procurement, but done under PFI anyway. Mr Rose, I warmly welcome the fact that we have a career long finance expert on this stuff. It is great news, the more the merrier. But you said earlier that you had not come across any example of where PFI was more expensive but it was still used.

**Andrew Rose:** I have not come across it, but to be fair I have not been in this role for a great deal of time, so I do not feel that is a terribly profound statement.

**Q148 Chair:** David Finlay can help us. Very quickly, because we have a whole bunch of people.

**David Finlay:** We did, in one of our earlier reports on PFI and roads, identify that one of the four projects went ahead that was more expensive under PFI. The rationale for it was to build up the market in roads at that time.

**Q149 Mr Bacon:** I am slightly amazed we are having this discussion, because it sounds slightly academic to me, and I think it is not just a story on the back of the Clapham omnibus that you heard from the passenger

sitting next to you. Everyone knows, for a long period of time PFI was the “only game in town.”

**Chair:** And probably will be in the future.

**Mr Bacon:** And, by the way, just in parenthesis, I remember the Chief Executive of the Norfolk and Norwich Hospital sitting where you are sitting now, saying he would have loved a refinancing clause in the contract but he was told he could not have one by, guess who: HM Treasury. I would like to move this on a bit, because the Report says, “There is no clear data to conclude whether the use of PFI has led to demonstrably better or worse value for money than other forms of procurement”, and you say you are trying to sharpen up your act and get better at it. One of the most obvious ways to make sure, to test which route is better, is to create clusters of procurements that are similar so you will be comparing apples with apples a few years hence, whether it is a cluster of primary schools, a cluster of high schools, very similar hospitals, and to do some one way and to do some the other way, and then one, three, five, eight, 11 years out to get somebody sensible like the National Audit Office with a group of agreed metrics that you agree at the start to apply to both of them, and then to see what works best. What is staggering about this is that after such a long period of time there is still such poor data: there is such poor data about the performance; there is such poor data about the returns made by equity investors and so on. Do you think that what I have suggested might form part of the future approach, so that you have something to get your teeth into and to work on a few years hence?

**Andrew Hudson:** We are certainly looking to improve our evaluation processes, yes.

**Q150 Mr Bacon:** That was not my question. I am talking about the performance audit after the event of having done two different kinds of procurement in parallel of similar clusters of activity.

**Andrew Hudson:** I understand where you are coming from, and would not totally rule that out. At the moment, given the scaling back, I think we would have to be very careful that we had realistic baskets. We are coming off a period where there has been a lot of public sector procurements, some via conventional procurement—big capital spending in the last few years, when public sector capital spending has been running at high levels—some under PFI. The National Audit Office will speak for themselves, obviously, but they, like us, also find it difficult to do this comparison, and going forward, if we had a sufficiently big basket that was genuinely comparable then it would certainly be an interesting thing to do. Since I think that may be tough, we are looking at other ways of improving our evaluation.

**Chair:** I am conscious that David Pitchford has not contributed, so unless people go for questions that he can answer, then I will intervene again, but I am going to try to keep the Committee going.

**Q151 Mrs McGuire:** I have two principal questions. One is I would like clarification—you listened to my questions to the previous witnesses—about whether or not there has in fact been a series of talks with the industry regarding a voluntary code of practice. I rank

back to the *Financial Times*, which indicated that the Treasury said it “continues to seek a voluntary code ... to ensure their positive engagement in reducing the costs”, and I think there is still a lack of clarity about whether or not those discussions are taking place, have taken place; people are sticking their thumb in their mouth and saying they do not want to play.

**Andrew Rose:** Basically, in February the Commercial Secretary announced there would be this pilot project that has previously been discussed. We have had very active engagement with the private sector about a voluntary code of conduct.

**Q152 Mrs McGuire:** Can I clarify, I am not talking about the pilot project. That appears to be a different issue from the comment from the Treasury that said, after six months of inconclusive talks, they are not getting any co-operation from the sector, so let us leave Romford hospital to one side.

**Andrew Rose:** They are exactly the same; if I may, I do not know who made that quote in Treasury. It certainly was not me. We have actively engaged with the private sector. What we have told the private sector is that we would like to complete the Romford pilot project; we would like then to get advice from Ministers, and then we would like to come forward to them for a voluntary code of conduct. That is the sequence of events that we have articulated to the private sector. We have had very active engagement, both with individual contracting groups, investors and representative groups like the CBI in talking to them about this concept. I cannot tell you who made that quote from Treasury, but it was not me.

**Q153 Mrs McGuire:** Do those talks include Innisfree?

**Andrew Rose:** Yes.

**Q154 Mrs McGuire:** They have included Innisfree?

**Andrew Rose:** Yes.

**Q155 Mrs McGuire:** Right, fine, thanks. Could I just go on to a slightly different tack: how many PFI contracts have been signed in the last year? Give or take one or two.

**Andrew Rose:** 30 projects with a capital value of £2.1 billion up to 16 March 2011.

**Q156 Mrs McGuire:** How many are currently under active consideration?

**Andrew Rose:** There are 61 projects in the pipeline, with a capital value of £7 billion.

**Andrew Hudson:** Sorry, just to add, in 2011–2012 to date, a further six projects have closed, so that is 30 up to March of this year, six in this financial year.

**Q157 Mrs McGuire:** Given the recommendations that the National Audit Office have made in their Report about the identification of data—however you pronounce it—the skills that were needed to negotiate, overseeing complex projects, setting expectations for the service, etc, you know them, they are on pages 9 to 11, how many of those contracts that have been signed since last year and are currently under consideration are taking those recommendations into

account? In other words, are you doing it under a different due diligence than some of the projects that have been raised here today?

**Andrew Hudson:** As I said, we have improved the rigour that we apply to PFI projects, and indeed conventional procurement over time, and so there are successive tranches of Treasury guidance that have achieved that. For instance, in the 2007 iteration of the guidance, term of art, SoPC 4 includes stricter provisions on transparency, which will lead to better data down the track. I think I am right in saying that the NAO’s comments apply for the portfolio of PFI projects over the years—is that fair?—rather than the recent ones, and I would expect the recent ones based on that guidance and the rigour in which we are interpreting it to be stronger on those grounds. In terms of the skills that are brought to bear, again there has been a programme of upskilling. This is not the first time that the NAO have drawn attention to it, and we have taken heed of that. There are some fresh initiatives coming into play now to go further, but I would expect that the skills of the people working on these recent deals would be stronger than, say, five years previously.

**Amyas Morse:** I’d like to believe that.

**Q158 Mrs McGuire:** I was just wanting to be really clear about whether or not the skills that you have in place just now, dealing with the current batch of PFI projects, and indeed the projects that have already been approved over the past year, have taken into account the differences that the NAO, over many Reports, have highlighted to the Treasury that would make a significant difference in value for money of PFI projects, and I just get the impressions that you are hedging your bets just a wee bit there—if a Treasury man bets, that is.

**Andrew Hudson:** And the Comptroller and Auditor General, his body language suggests—

**Mrs McGuire:** He is not impressed.

**Andrew Hudson:** That he is not impressed. As I say, there were certain initiatives taken. What I do put more faith in is that there is more push behind this now, and David Pitchford may want to talk about some of the things that the Efficiency and Reform Group are pushing forward on that front.

**Q159 Joseph Johnson:** In paragraph 4.8 of the Report it says that the Treasury has announced a pilot review of a public sector hospital contract to identify possible learnings for other projects. Can I just ask which hospital contract you are doing?

**Andrew Rose:** That is the Romford one.

**Q160 Joseph Johnson:** Terrific. Can I ask you to include in your pilot review the South London Healthcare Trust, which is lumbered with two massive PFI contracts on the PRU and on Queen Elizabeth Woolwich? I raise this because, as readers of the *Financial Times* will have learnt in recent days, the presence of two large PFI contracts within the South London Healthcare Trust is having incredible unintended consequences on the un-PFI encumbered hospitals within the Trust, severely impacting on the operational flexibility of the Chief Executive of the

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South London Healthcare Trust to organise himself in a remotely rational way. What is happening is he is having to carve to pieces the non-PFI hospitals within the Trust because he is prevented from reorganising the PFI hospitals. What is happening is financial interests are taking a clear precedence over patient interests, and how he would, in a normal world, want to organise himself. Clearly, that cannot be right. What I really want to get a sense of from you is one, please can you review the South London Healthcare Trust PFI contracts and two, going forward, do you really think it is appropriate for PFI—long term, rigid, inflexible PFI contracts—to be applied to hospitals?

**Andrew Rose:** If I may, again, the pilot came out of the work that Philip Green did with the Cabinet Office identifying PFI as an area. From a resource point of view, we had to select one. The whole purpose of picking a pilot is to roll it out across the whole programme. Subject to this Minister's advice, we will be updating our guidance because we actually want all procuring authorities to learn the lesson from this and apply it to their own contracts. The idea of running a pilot is so that we can give advice to all procuring authorities; it is all about the initiative from Government to make sure its suppliers are giving it the best deal, and we are very keen that it is rolled out to all contracts, and that is—

**Chair:** I have to interrupt you there. All I am telling you is that I know what is coming out of there, and you are not getting much that is going to enable you to cut the costs unless you cut the service, bluntly.

**Q161 Joseph Johnson:** Can we get some answers to the points I was making about the suitability of PFI for hospitals?

**Andrew Rose:** Again, I think it is really a decision for the Department of Health, how they want to proceed with their hospital programme. I think there are some interesting comments that have been made about different types of models that can apply different levels of flexibility, but I think it is a decision for the Department of Health, how they procure their hospitals.

**Q162 Stella Creasy:** How many of those PFI projects that you have in current process involve hospitals? How many of the ones that you are currently negotiating?

**Andrew Rose:** There only is one pilot at the moment that is for a hospital.

**Q163 Stella Creasy:** No, sorry, of the PFIs that you are currently negotiating—I think you were talking about 19 of 61 projects.

**Andrew Rose:** I believe it is eight.

**Stella Creasy:** Eight; so there are eight that fit Jo's model.

**Q164 Joseph Johnson:** Mr Hudson, you were going to come in and make some points.

**Andrew Hudson:** I was going to come back on your point about flexibility. If I might ask—I am afraid I am not familiar with the detail of the South London case—these two are both reasonably new hospitals, are they?

**Q165 Joseph Johnson:** Yes, but it has the biggest deficit of any Trust in the country, so it should be very high up on your priority list of things to look at in terms of where PFI is going wrong.

**Andrew Hudson:** The point I want to explore is about decisions and where the costs come, in that I accept that PFI is less flexible than others, and I explained in earlier answers as to why that is. I think we all understand that. Are they new hospitals, Mr Johnson?

**Q166 Joseph Johnson:** The PRU is about 10 years old.

**Andrew Hudson:** If two hospitals have been built within the last 10 years then one of the decisions maybe that led to this was to go that far and have that big an investment in that area. I am sure they are valuable to the patients, but that in itself creates a cost, whether or not you do it through PFI, although I am not denying that PFI makes things less flexible and harder to move around. What I would say going forward is that one of the things that the Treasury looks hard at in our scrutiny of business cases is the strategic case for new investment, and whether we can build more flexibility into the deals I think is an interesting challenge.

**Q167 Mr Bacon:** Is this not at the absolute heart of it? The thing I have always found difficult about this is: the historic criticism of PFI is you cannot possibly write a deal that is flexible enough to take account of what will happen over the next 25 to 35—

**Chair:** 35 to 40.

**Mr Bacon:** —or 60 years or whatever it is. You cannot do it. So you try to build in all the risks. I have often thought this about hospitals in particular: the Royal Institute of British Architects sat where you are sitting and told us that the average cost of bidding for a PFI hospital was £11 million—that was some years ago—because it is so expensive. So you try to analyse all these risks and get them sorted ahead of time, which substantially raises your costs at the start, but nonetheless, you cannot actually do it. You cannot write a contract that is flexible enough. So what happens is that over a period of years, guess what, changes arise. After you build a flagship hospital suddenly the flavour of the month—or flavour of the year—is we are going to do much more at a primary level. Then the contractors, quite rightly—because they try to identify and price all the risks—turn around and say we want what the Report calls in paragraph 14 “high margins on the changes in asset usage which are likely to occur over a long contract.” From the private sector's point of view, you can hardly blame them: they signed a contract for one thing and then you want to do something else. But what you end up with, to go back to this article in the *Daily Telegraph*, and this is actually an Innisfree case, is: “It owns four-fifths of the PFI school in Clacton which has now closed—but for which taxpayers must still pay it £1.4 million a year, Innisfree's share of the deal, until 2035”, and there are various other examples. You just described getting more flexibility as a “challenge”; now, Mr Metter gave some interesting examples from Canada of how you might be able to strip out some of the risks, in terms of things like services. But

fundamentally there is a base level of rigidity below which you cannot go isn't there? Isn't that the fundamental problem?

**Andrew Hudson:** The question for me is how we have the necessary flexibility in the infrastructure we are using for things like health care, because if we put up a building that is publicly funded as a district general hospital as we know them at the moment that has some inflexibilities as well. The question is, what methods—whether it is PFI as we understand it at the moment or some other ways of procuring—give us the best possible chance of a value for money way of having more flexibility in our asset base to cope with precisely the sort of changes in care?

**Q168 Chair:** So can you? Can you? Answer the question: can you?

**Mr Bacon:** Is it not the case that either the taxpayer gets screwed at the beginning when you have a dreadful project like the Scottish Parliament or Portcullis House, or you get screwed later? Is that not really the choice?

**Andrew Hudson:** I think we should—as we go forward—look to find ways of—

**Mr Bacon:** Not being screwed.

**Andrew Hudson:**—doing it better, not being screwed start, middle or end.

**Q169 Stephen Barclay:** A lot of weight is being placed on the Romford pilot. The Treasury Minute says the pilot project will hopefully provide data which trusts can use to challenge the costs of PFI. How are you going to ensure that the pilot is adopted by what are independent foundation trusts, and how are you going to report that back to this Committee?

**Andrew Rose:** I do not think we can ensure. I think what we can do is inform and guide and help. So can we ensure and impose? No, because there are sensitive discussions about how you might achieve those savings. I do not think it is our mandate. Hopefully what we will discover is immensely helpful and procuring authorities, whether they be health or elsewhere, see the advantages of what we have learnt from this exercise to save money.

**Q170 Stephen Barclay:** Sure, but the point I am driving at is—whether we have a good contract is open to debate—even a good contract is only good if it is managed effectively.

**Andrew Rose:** Totally agree.

**Q171 Stephen Barclay:** I contrast what we know from the Department of Health with the previous witnesses, Innisfree, who, I understand, have acquired interest in 24 hospital PFIs. On the one side you have consolidation and a consolidation of expertise. On the other side we know from the Department of Health that 40% of Trusts do not routinely engage with their guidance, which to me raises questions over how effective the Romford pilot will be in rolling that out. And we know at a time when they have to achieve the Nicholson £20 billion efficiency challenge—so they are under staff pressure—that 36% of trusts have less than one FTE managing these contracts and 12% have no one managing these contracts. So on the one hand

you have the private sector expertise—often far better paid—and on the other hand you have some hospitals where no one is managing this at all, and where your solution to this Committee is to say, “Do not worry, guys, we have this Romford pilot”, but I cannot really see what reliance can be placed on that. Could you perhaps just update us: of all those trusts now—that 12% that was flagged a good six months ago—is that 12% down to zero? Could you at least confirm to the Committee that all hospitals have someone managing these contracts?

**Andrew Rose:** I cannot.

**Andrew Hudson:** I do not have that information. It is clearly in their interests to find ways of managing these contracts effectively. I appreciate that in some trusts resources will be thin on the ground, but—

**Q172 Stephen Barclay:** But does it not cut across? You are saying that we are doing a pilot in Romford: if we cannot even get to a point where hospitals have allocated someone to manage their contract, surely that is the starting point, is it not? This was flagged in an NAO Report, we had a hearing on it, it is in the Treasury Minutes. Why are we not even at base camp?  
**Andrew Hudson:** Driving through savings depends on active contract management. That must be right.

**Q173 Stephen Barclay:** What I am driving at is how do we as a Committee get sight as to whether that is improving? Is that the Treasury? Are you going to ensure that the Department of Health write to us? We have contracts here which we know are not being managed. That clearly is a value for money issue. On the other side we have consolidation, where there is growing expertise. How as a Committee are we going to address this issue? How are we going to get visibility on that moving forward? Are you going to write to us in six months, 12 months? What is the solution?

**Andrew Hudson:** I am happy to update the Committee on how that is moving forward: I just do not have the information at the moment, I am afraid.

**Q174 Stephen Barclay:** I know work has gone on from some of the lessons in terms of the delays around contracts and some of the increased costs, so perhaps Mr Pitchford could give us insight as someone independently coming in and looking at this: what are the lessons learnt, and perhaps how in terms of your reporting, how you are going to report to this Committee moving forward.

**David Pitchford:** In relation to PFI specifically?

**Stephen Barclay:** Yes please.

**David Pitchford:** Thanks Madam Chair, I thought I was going to get away with it.

**Chair:** You're not, I'm afraid. There are quite a number of questions we want to ask you. It's just we are going to take longer than we thought.

**David Pitchford:** Mr Barclay, I need to preface the answer to your question with an explanation of what I am dealing with at the moment, and the focus, as this Report finds, of the MPA activities is not PFI projects per se. The definition that we are working on—the working definition—is if the project is outside the Departmental expenditure limit, or is of

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specific interest to the Government because of contention or otherwise, then it goes onto the Government major portfolio itself, but not because it is PFI but because it is a high value or a high risk project. We have only started doing this since 1 April, but we are not specifically targeting PFI projects. We are looking at the large scale projects because they are high risk, high value and because we have to focus on that. The answer to your question, I am afraid, is going to be inadequate, because where I am at the moment I do not have carriage of where PFI projects are at. My focus is on setting up the assurance approvals, intervention and oversight and control mechanism to look at the major projects that meet the definition that I have.

**Q175 Ian Swales:** Can I just add a clarification question? We heard that 61 projects, value £7 billion, are currently under review. How many of those are you involved with?

**David Pitchford:** At this stage, none.

**Q176 Ian Swales:** None? So they are not regarded as high value or high risk?

**David Pitchford:** No, my focus, as I say, is on what might be called the conventional projects base, which is about 90% of where the major projects dwell, and my task is to set up an organisation that can control and oversee those. Within that definition that I explained before, Mr Swales, there are a small number of PFIs on our Government Major Projects Portfolio, but they are there because they are specifically high risk, high value in terms of how the Government is looking at Central Government funded and delivered projects. That is my space at the moment: Central Government funded and delivered projects.

**Q177 Stephen Barclay:** Just coming back, would it be possible to have a note, whether it is from you or from the Treasury, firstly on how many people at the centre are managing PFI projects? I understand there were only four people in the Department of Health central team; I think there were even questions over that. I am sure there are resource challenges within the Treasury. It would be very good just to have some data on exactly how many people are providing that centre of expertise to perhaps offset the expertise on the private sector, and within that, how many are working on policy in order to advise, how many are on monitoring to pick up on the poor data within hospitals, which is so often an issue, and how you are going to report that back to us and what the intervals are so we can start to assess, not just in hospitals but in other contracts, how that is being managed. But within the reporting from your area, will you be reporting quarterly to this Committee?

**David Pitchford:** I could appear quarterly; my task is to report to Ministers quarterly and to the Efficiency and Reform Group board, and of course to my own board, the Major Projects Authority board, and I have a task under the mandate issued by the Prime Minister in January to report directly to Number 10 and to the Government by exception where we discover a project that has moved—

**Q178 Stephen Barclay:** But if something goes wrong in January it is a long time for us to wait, either for the NAO to look at it or for it to come round in your annual report at the end of the year.

**David Pitchford:** The Government Major Projects Portfolio is really the process that will inform this. This will be in quarterly reporting tranches. We are building the Government Major Projects Portfolio list as we speak. On the portfolio aspect—Madam Chair, I believe I am coming along next week to describe more fully about this process, so I will just sketch these now, if that is alright?

**Q179 Chair:** I think let us deal with that next week. What I was going to ask you in relation to today is: Mr Metter said public sector procurement is lamentable, and the only way is to lock in private sector expertise through PFI deals. Do you agree with that?

**David Pitchford:** No, I do not. I think that there are good people within the Civil Service here, and I come from outside so I have a good window to look through. There are obvious things that can be done differently and better across the board. This is true in my own jurisdiction and certainly where I was before I came here, in Dubai. The issue is about skills, or lack of it, and whilst we can talk here about the processes, what fundamentally needs to happen is that this skill base needs to be lifted up.

**Q180 Chair:** Then the other question I was going to ask you, which is relevant today—I am just conscious that you are coming back to us—is that if there is all this expertise, it will always be constrained within the public sector, and that tends to suggest that the PFI oversight and control should be managed from the centre, or more managed from the centre rather than left to individual Trusts or schools or whatever. There is a tension there between the localism agenda and the value for money that one could get out of PFI. Do you recognise that, and how do you intend to approach it with your role in charge of major projects? Just on PFI.

**David Pitchford:** I understand the tension—believe me, with a capital T. The reality of life here is that I started off in the area that I explained to Mr Barclay because of the central Government focus that I have been given by Ministers, but because of the localism issue, about 90% of these PFIs have delivered locally and it is outside of my jurisdiction. But what we are doing—if it is news to you I hope it will be good news—is to look at how we can do this across the board differently. When I first came here there was no tie-up between major projects, between procurement, between ICT projects, and we are moving to bring those three together, and the partnership with Treasury itself is a major step forward on that. The work that is going on in relation to procurement, not only in terms of the successor to the OGC collaborative procurement, but some really major steps like the appointment of crown representatives to handle procurement across the board with certain suppliers, is a major step forward. We are working together on how to cross over that to make certain that major projects that have huge procurements as part of them

work—and as we have talked before a lot or some of these major programmes are 100% procurements, like some of the health major programmes. I know Andy wants to speak and I will talk more about this last week—next week, rather: it would be good if I could do it last week.

**Chair:** It would.

**David Pitchford:** We need to focus much, much more on the start-up of the project, and certainly before they get underway.

**Q181 Chair:** So you will intervene more from the centre in the start-up?

**David Pitchford:** Much, much more in the centre.

**Q182 Chair:** Even if it is a hospital trust that is highly independent?

**David Pitchford:** If I can be perfectly clear, I am not talking there, Madam Chair, about PFIs at this point. I am talking about projects that are on the Government Major Projects Portfolio. We are in discussion with Treasury and a range of other stakeholders to look at where this all should sit, and at this point there is no definition to that yet. Is that fair, Andy?

**Andrew Hudson:** Yes. We are working on that. If I could add, Madam Chair, on the point about localism, I think having local decision making on these things does not necessarily mean that the local body has to do all the work itself and is not able to tap into other sources of expertise, be that the Department of Health private finance expertise or to collaborate across local areas. Going back some while, in my last job but one I was Deputy Chief Executive of Essex County Council, we were working with the district councils in Essex to share procurement both in terms of bulk buying, but also ready to use the expertise that we had as a big council if they wanted to talk to us about how best to do things, so I think there is scope for that sort of thing all in the spirit of making the best use of taxpayers' money.

**Q183 Stella Creasy:** One of the things I am slightly concerned about when we are making decisions—you say you have 61 projects that you are still in train on—is what is changing, and in particular the assessment between the decision to move towards PFI and the decision to use another form of procurement, and I am quite interested by what you are saying, Mr Pitchford, that you are not looking at PFI per se at the moment, you are looking at other forms of procurement. What I am particularly interested in with PFI is one of the assessments that is made is a construct about the amount of tax that will be recouped or returned to the taxpayer in a general sense by working with the private sector within the UK. With that in mind, then, are you troubled by the widespread evidence of the numbers of PFI deals that now involve offshore tax havens? I will give you one very good example: we know that HSBC set up an investment firm called HICL, which in the last six months made more than £38 million profit from 33 PFI schemes and paid £100,000 in UK tax. Even taking Mr Metter's assessment that your return is about 8% to 10% for your dividend, £100,000 does seem rather low. Do you think we have it wrong when

we assess the financial viability and the value for money of PFI and we look at the tax component of it?

**Andrew Hudson:** We have clear guidance on the appraisals stage which says, to quote the Green Book, "where publicly financed options are compared to PFI options, taxation differences should be considered and adjustments explicitly made if not doing so would materially distort the decision."

**Q184 Stella Creasy:** Do you take into account the idea that a lot of this money will be moved offshore?

**Andrew Hudson:** I do not want to comment on specific cases but that is our overall guidance.

**Q185 Stella Creasy:** So do you have an assessment of how much public taxpayer money we have not got back that we thought we would get back when moving towards a PFI because the money has been moved into offshore tax havens?

**Andrew Hudson:** What I can say is that in assessing these—

**Chair:** I think it is a yes or no, Mr Hudson.

**Q186 Stella Creasy:** Yes; have you made an assessment of this?

**Andrew Hudson:** I do not have an aggregate figure, I do not know whether Andy has any?

**Q187 Mr Bacon:** This is quite important; I think Stella Creasy is not so much asking for a specific case as the generic point, and of course we know the famous case of HMRC's tax offices across the country ending up owned by a company in Bermuda.

**Stella Creasy:** It is not just one overseas tax haven, is it? There are lot of the firms involved.

**Mr Bacon:** There is a lot of it going on; but you are saying you do not analyse it, you do not take it into account?

**Andrew Hudson:** I am saying that we analyse what happens in deciding whether the deal should go through or not—

**Chair:** That is at the start; that is at the start, but it is the monitoring.

**Q188 Stella Creasy:** Yes; at the start you make an assessment of the generic amount of tax that you would return by working with the private sector.

**Andrew Hudson:** After that, as with other procurements, these are then private companies who are conducting their business.

**Q189 Stella Creasy:** So Mr Pitchford, are you looking at whether the loophole should be closed to stop this?

**David Pitchford:** No, I am not, because as I described—

**Q190 Stella Creasy:** If there is money being lost to the taxpayer as part of this process that we thought we would get in as part of PFI, do you think you should be?

**David Pitchford:** Perhaps I come back and explain from the other end, Dr Creasy: my role is to look at the major projects, not the procurement vehicle at this point.



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**Q191 Stella Creasy:** Okay, so sorry, that is not something you are looking at. What about you, Mr Rose or Mr Hudson? Are you looking at closing this tax loophole, or are you looking at setting conditions for the contractors that you work with about the amount of work they do in the UK and looking at their returns, for example, before you commit to them?

**Andrew Rose:** I think there are two levels. One is the up-front analysis, which I think Andrew has talked about. At the moment we do not look at PFI differently from any other form of contracting with Government and how individual private companies arrange their tax affairs. The answer as of today is we do not have a different assessment for—

**Q192 Stella Creasy:** But you do take an assessment when you decide to go with PFI that tax return will be part of that assessment about the value for money for the taxpayer, do you not?

**Andrew Rose:** There is an evaluation up front, but at the moment there is not—

**Q193 Ian Swales:** To clarify that point, are you now assuming that most of these deals will end up in a secondary market with most of the capital return moved offshore? Is that now part of your assessment, because that is actually the experience, isn't it?

**Mr Bacon:** You are shrugging—it is the experience.

**Andrew Rose:** No, I am afraid it is not part of the assessment, no.

**Q194 Ian Swales:** You do not take any account of what happens past the primary market, then. Given the massive secondary market that now exists in PFI, you are not taking any account of that in your assessment; you assume that the PFI deal will remain with the first person that you deal with in your assessment. Is that the case?

**Chair:** They only assess at the start.

**Stella Creasy:** How do you have any confidence in the assessment that you make of the money that we are going to get back in tax returned when you make the decision to go with PFI?

**Q195 Ian Swales:** Exactly; surely the working assumption now should be that this will end up in an offshore deal, because just by experience that is happening in a lot of cases, so that should be the assessment that you make, shouldn't it?

**Andrew Hudson:** There are a number of things about how companies organise themselves once a deal is done, which we could look into, but we would be starting to speculate as to how they organise themselves.

**Q196 Chair:** Hang on a minute, let's just stick to the actual issue. The issue is, when you make an assessment of whether to go down the PFI route you include in that assessment some assessment, again, of the tax revenue that comes into Government from a company, a UK based company, during the deal. However, if you are making that assessment there, why aren't you monitoring later on whether in fact that is right; or why aren't you changing your

assessment rules to have regard of the fact that most of them go offshore? We all know that private companies can do what they want, but it is from the point of view of protecting the interest of the taxpayer that Stella is putting these questions.

**Andrew Hudson:** I understand the issue, but it is not part of our work programme at the moment.

**Q197 Stella Creasy:** So I am clear then that there are 91 PFI projects that are currently in secondary market infrastructure funds that are located overseas, and that is not a problem for the Treasury in terms of the tax take. That is not something that you are actively thinking about when you are looking at public spending and the money that we need to get back in to be able to pay for all these is not something you are considering.

**Andrew Hudson:** We do a rigorous assessment of the value for money of the deal—

**Stella Creasy:** Which includes the tax.

**Andrew Hudson:**—based on the information that is available to us at the time, including, as I say, an assessment of the tax consequences.

**Q198 Mr Bacon:** Can I just clarify, when you say it is an assessment of the tax consequences you mean an assessment of the likely tax revenue from that company after the deal is done, assuming it continues to be based in the UK. Is that what you are saying?

**Andrew Hudson:** I would return to the words in the Green Book that I quoted, which I can quote again if that would help, but I think it is already on the record. That is the guidance; that is what we ask people to look at. That is the return, and that is what our assessment of the deal for the taxpayer is based on.

**Q199 Matthew Hancock:** Just briefly, looking at the same question from the other end of the telescope, we have just heard from Mr Pitchford how he is trying to drive down costs and get a handle on all of the major projects in Government, and we look forward to the presentation in more detail next week on how you are going to do that. In terms of this judgment that you have to make on whether PFI or standard procurement is better value for money—and where we have already heard that in some cases PFI went ahead despite the fact that it was not better value for money—how are you going to reassess the traditional procurement route costs given the improvements that the Cabinet Office are aiming to achieve?

**Andrew Hudson:** I would expect that to arise through the progressively better skills that we are able to bring to bear, not just in negotiations, but as David Pitchford said in setting the specification at the upfront stages.

**Q200 Matthew Hancock:** And how are you going to drive those into the relative cost judgment that you have to make to ensure that you get best value for money for how you procure something?

**Andrew Hudson:** The primary method for driving value for money should be competition, and part of success—

**Matthew Hancock:** No, no, that is not my question. You were talking earlier about how you have your public sector comparator when you are choosing

whether to go PFI or not. We have just heard how hopefully Mr Pitchford and others are going to drive down the cost of the public sector comparator. How are you going to get that into your calculations so that you can go for the best value deal rather than just go for PFI as you did in the past?

**Andrew Rose:** If I may, one of the things we are going to do is completely update the value for money guidance with specific reference to private finance, and we are also going to factor in to that an ex post project, or value and benefits realisation assessment.

**Matthew Hancock:** Aha.

**Andrew Rose:** So one of the things we have already articulated we are going to do this autumn, as I say, is one, improve that approach to value for money specifically for private finance, and secondly, as I say, it is a benefits realisations assessment, and we will reflect on a lot of the discussions that have taken place in this meeting.

**Q201 Matthew Hancock:** As part of that benefit realisation assessment, do you think you could do a note to the Committee—simply a factual note—on all of the PFI projects that have been completed, on what was the relative PFI and public sector comparator at the moment of the decision, on the basis, at the time? It would be very useful to find out.

**Andrew Rose:** As I say, can we take that away?

**Matthew Hancock:** Just provide a note, say, in the next week.

**Stella Creasy:** With that note, could we also have what tax expectations you had at the time as part of that decision, so what you were expecting to get in tax returns from that.

**Chair:** You are going to have to do it on a sample. We have a vote at six, so I am going to try to close it before then.

**Q202 Jackie Doyle-Price:** I will try to be quick, but I think really I want to come back to this issue of skills again, because to be honest I am detecting a bit too much complacency about the skills deficit that we have across Government, and I think that occurs for two reasons. Mr Metter pointed out that procurement in the public sector does not attract the best brains, partly because we cannot actually pay them enough from the private sector, and also because, although Mr Pitchford is right when he says that our civil servants are very intelligent, they are attracted to policy roles rather than procurement roles. I know you said earlier in response to Mrs McGuire that you thought we had upskilled quite a lot. Perhaps you could say a little bit more just to give me more confidence.

**Andrew Hudson:** What I was thinking of in terms of how we have upskilled—and I am sorry if I sounded complacent, because I am not; I think that the work that David Pitchford and his colleagues in ERG are doing on this is really important—is that the Office of Government Commerce, as then was, ran a series of procurement capability reviews in each of the big Departments about two or three years ago. I am not sure whether they covered all of them. That made a series of recommendations which Departments will be following through. I am not complacent, and I note that the NAO Report I think uses the phrase that since

they pointed out this issue in a 2009 Report certain actions have been taken. We do not have a very warm endorsement from them on this. I think of the sort of things that David Pitchford has talked about in general terms, and can explain more either now or later, in terms of having a greater interchange with industry, having better accreditation, and making better use of the skills that we have, because while it is not easy to attract people in, we do nonetheless manage to get some extremely capable people—I am glad to say—and we want to make maximum use of their skills.

**Q203 Nick Smith:** Very quickly; I was really quite impressed with the health PFI people that came here, and I was reasonably assured that the hospital contracts they set up were good value for money, and I saw lots of new hospitals around the country. I know there are problems in lots of places, but in the round that is what I came away thinking. However, the Report pointed to these risks for long-term value for money and I want to return to the point that Mr Barclay was making about this management of the tail of these contracts, and I just do not feel sufficiently confident in the answers that you have given us this afternoon about managing the tail of these PFI contracts and all the risks and expense of it.

**Andrew Hudson:** As I think I said to Mr Barclay, I will happily look into that with the Department of Health in more detail as to these problems that he referred to of shortage of people available to manage these contracts, because one of the things in the guidance that we have already put out about operational savings is about active contract management as a fundamental point, so it is important and, rather than say any more now, let me work with the Department of Health and come back to you on that.

**Chair:** Austin very quickly, then Richard, and then I think we will probably have a vote.

**Q204 Austin Mitchell:** I am glad you brought Mr Pitchford, because I wanted to ask how many more millions the Palm Jumeirah would have cost if it had been done on a PFI basis, but my question is local, it is to Mr Hudson; it does not demand an answer now, but perhaps you could tell us. We have in Grimsby—**David Pitchford:** It was done as a PFI but with someone else's money.

**Q205 Austin Mitchell:** That was not the answer I wanted, but thank you. Grimsby's Heritage House is part of the PFI deal between Treasury and Mapeley STEPS. It was built to give a home to public services, to bring them to Grimsby, and we need the diversity of employment that they provide. It is a brilliant idea, and it is also conveniently placed for the best fish and chip shop in Grimsby. But the public services which were brought there are now all leaving, including your own Valuation Office agency, including HMRC, including the Crown Prosecution Service and Work and Pensions; they are all leaving because the rents are too high, and they are going to Lincoln and Hull. Grimsby is the kind of place where it is cheaper than the real world: we could provide a lovely home for public services, and should do. Is this a consequence

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of the prices charged under a PFI deal being too high for the Departments to pay? Perhaps you could give us a note on it.

**Andrew Hudson:** I will happily look into it. I remember visiting that office in Grimsby and wishing I had more time to look around the heritage site, which I did not at the time.

**Q206 Mr Bacon:** Mr Hudson, we all wish we could spend more time in Grimsby, but it is just not possible. Mr Pitchford, could I just return to this whole question of skills and your efforts to increase them. One of the other things that really comes out of the Report is this whole deficit of experience capacity, lack of the right challenges, and it is hugely encouraging to see that you are in a position, doing the job that you are doing, trying to do something about it. I met one or two of your guys already and they seem very impressive. We will hear more about this next week, I am sure, but some of this is directly relevant to PFI. You said something rather worrying, which is you do not really have a locus here, it is all local. The Report talks in paragraph 2.9 about joint procurement by district councils, a large team of PFI specialists at Leeds County Council, regular forums of NHS Trusts and all the rest of it, and I hope you are going to say you can do something more, despite the limitations and the ghastly phrase “spreading best practice”, because that is what the OGC was trying to do for the last 10 years, and frankly it did not get us very far.

**David Pitchford:** If we start at the back end of that question, certainly the best practice thing, I have another role that is concurrent with mine; it used to be called Head of Professions but it changed to Head of Function for exactly that reason, to try to move this away from the academic-type application into what is this function all about, how is it best done, how can we roll it out so it is in the wider public sector, but by showing them what we have done in the central Government sector, rather than me attempting to do it across the piece? There certainly is a plan there, and I am working in relation to that. But in relation to the other skills thing—and if it is okay with you Mr Bacon I will be much fuller about this next week and just give you a sketch about where we are at—the environment here is pretty fraught. As Ms Doyle-Price said, I do have a great view about the capability of people, but it is the organisation and the thrust of where they are at, what they have been exposed to and how we can enhance and deliver that much better, and we are in an environment where you cannot buy in. As you quite rightly said, you cannot buy in people through salary boost, you cannot hire consultants under this operational construct at the moment, so we have to get innovative about it. The areas that we are looking at to apply this innovation is with a genuine commercial exchange with suppliers that we engage with in procurement to come into the space and provide people to help us who provide additional commercial and particularly contract management capability. Several of you have been talking about contract management, particularly Mr Barclay and Mr Hancock. This is fundamental. One of the critical failings, in general terms, as Mr Morse will tell you, in projects across the Civil Service is lack of contract

capability in order to be able to draw up the contract and then manage it so the Government is the best advantaged party. The second one is commercial understanding of what you are trying to do in putting the deal together. That is what we are trying to do. We are also looking to get much more participation from the Civil Service at the higher level in review of projects by going to places that we have never gone before, and that is to seek out at the Director General and Director level in departments those people who have specific capabilities. I am also looking—this is a new area as well, I have not got it quite set yet so I will not tell you the service I am using as a pilot—at those trading functions that are abroad in the public sector where there are people who are commercially 100% oriented, and I have struck up a pilot, which I hope will be struck off on Tuesday of next week, where we will get 12 people to come and start to educate operational capability into the piece.

**Q207 Chair:** I know you have a long list, but I am really conscious we are about to have a vote. In that whole context you are talking about major projects in general. Has PFI got a role? This is a PFI inquiry we are looking at, at the moment.

**David Pitchford:** Yes, I know. I have to go back to where I am operating at the moment, and that is in relation to major projects per se, as we work through—

**Q208 Chair:** Is your view that it has or it has not, or have you not got a view?

**David Pitchford:** The operational skill requirement is applicable right across the piece. I am looking at projects from what they are and where they are at. PFIs are a particular procurement instrument, and there are others, but my focus is on the projects that are high risk, high value and if there are more PFI ones that come into our patch because they are in that category, then the answer is yes. But the skills we are talking about here are applicable particularly at the outset of projects.

**Q209 Chair:** Okay. I think we are going to be called in, so could we also have a note setting out who owns the PFI contracts that have been sold in the secondary market, and particularly my understanding is that there might also be some North Korean and Iranian companies who own them. I do not know if you are aware of that.

**Andrew Hudson:** We can let you have a note on the information. Information on ownership is already on the Treasury website, but we will let you have a note on that, yes.

**Chair:** It is the entire secondary market.

**Stella Creasy:** Yes, 91 projects.

**Chair:** Okay. I think we are there.

**Q210 Ian Swales:** Can I just ask one more on the secondary market? We have heard about the secondary market, and really I would just like to know how the taxpayer can get more value from the money that is created in the secondary market effectively by people aggregating public sector cash flows, creating what is in effect a Government bond with a very high

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rate of return. As we heard from Mr Bacon, even if a school closes, the money still keeps flowing and those aggregators can pay their Chief Executive—he has gone now—over £8 million a year. How can we get more of that money, which is in the end public money, back into the taxpayer?

**Chair:** Ian, a division has been called.

**Andrew Rose:** The answer is quite a complicated question, so I am happy to tell you, but it is quite a long answer.

**Q211 Chair:** Go on, very quick.

**Andrew Rose:** Very quickly, if the private sector aggregates and does a bond off the back of their portfolio that will create a refinancing gain that the

Government shares in. If they did aggregate their cash flows and issued a bond against those cash flows, that would be a refinancing gain where the Government would get a gain share.

**Q212 Stephen Barclay:** Was that the 50/50?

**Andrew Rose:** It is, so it is 50/50—but that is at a project level. At a portfolio level we would have to consider that.

**Ian Swales:** Okay, thank you.

**Chair:** Thank you so much. Sorry it is a bit chaotic, but we had a very full Committee and we are constrained on time. We probably spent more time than we should with the secondary market operators in the first instance.

### Written evidence from Innisfree

#### WYTHENSHAW HOSPITAL

The Wythenshawe Hospital PFI transaction was financed by Bank Debt of £79.4 million and shareholder investment of £6.9 million which was used to finance the construction and development cost of £83.4 million (of which the construction cost was £64.6 million, design and fees of £6.2 million and interest and finance costs built up during construction of £12.6 million) and funding reserves required by the Lenders. The bank debt will be fully repaid by 2023 after which the annual Trust PFI payment reduces.

Set out below is a table produced from the 12 August 1998 Financial Close model for the South Manchester Hospital PFI deal. The Trust PFI payments are linked to RPI (All Items) which was assumed to be 3% throughout the concession life (to 11 August 2033). The net present values shown use a discount rate of 6% with cashflows discounted to the date of signing of the concession agreement.

<i>£ million over concession life</i>	<i>Nominal payments/ expenditure</i>	<i>as a percentage of Trust PFI payment</i>	<i>NPV of payments/ expenditure</i>	<i>as a percentage of Trust PFI payment</i>
Trust PFI payment	892		342	
<i>Used to pay for the following services which would otherwise have been paid for directly by the Trust..</i>				
Soft services	403	45%	147	42%
Maintenance	169	19%	63	18%
Insurance and management costs	33	4%	12	4%
<b>Sub-Total</b>	<b>605</b>	<b>68%</b>	<b>222</b>	<b>64%</b>
<i>..with the remainder of the payment to fund the financing..</i>				
Senior Debt	160	17%	81	23%
Interest received on deposits	(11)	-1%	-4	-1%
Equity Return	87	10%	28	9%
<b>Sub-total</b>	<b>236</b>	<b>26%</b>	<b>105</b>	<b>31%</b>
<i>...and tax</i>				
Tax	51	6%	15	5%

The total development cost of the hospital of £83 million should be compared to the £105 million discounted cost of the financing, a 1.25 times multiple, rather than the £892 million of nominal payments the Trust will make which includes payments for services. Using a 6% discount rate **the return to equity over a 35 year concession period gives a four times multiple (invest seven, return 28) or a simple 8.5% return each year earned over 35 years.**

In 2010 the Trust PFI payment was £28.9 million, under 9% of total Trust Revenues. Soft services and Hard FM are regularly value tested with 100% of the savings being passed through to the Trust. No margin is charged by the PFI Company on soft or hard FM services. Lifecycle replacement is a PFI Company risk.

The PFI Company (South Manchester Healthcare Limited) is a UK company subject to UK tax.

Ignoring the time value of money can lead to misleading figures. For example on an undiscounted basis the “cost” of a £100 million 30 year 5% gilt is £250 million.

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### Written evidence from Dexter Whitfield

#### SALE OF EQUITY IN PFI COMPANIES

Dexter Whitfield, Director, European Services Strategy Unit, and Adjunct Associate Professor, Australian Institute for Social Research, University of Adelaide.

#### SOURCES OF PROFITS IN PFI

1. An average rate of return of 13%–15% is built into PFI projects before they are signed.
2. Additional profits may be obtained if a project is refinanced. Once a project is operational, it may be refinanced with gains shared on a 50%/50% basis between the public and private sectors.
3. The special purpose company for each PFI project reports profits and losses annually like any other company. The financing of PFI projects is complex. A John Laing example illustrates how equity invested in 2005 and is repaid at the end of the contract in 2034. Significant loan stock invested in 2007 is repaid between 2008 and 2024. Loan stock interest commences in 2008 and reduces up to 2023. Dividends commence in 2024 and continue until 2034 with a significant dividend in the final year (Cashflow to Shareholders, John Laing) [http://www.laing.com/top/industry\\_information/financial\\_aspects/shareholder\\_returns.html](http://www.laing.com/top/industry_information/financial_aspects/shareholder_returns.html)
4. Additional profits are obtained from the sale of equity in PFI special purpose companies. Secondary market equity sales became established in 2003 (see Table 1).
5. The termination or construction/operational problems of some PFI projects may result in financial losses, but to date they small compared to speculative profits obtained from the sale of equity in the secondary market.
6. The sale of equity is significantly higher than that the sales identified in the HM Treasury PFI database, the Partnerships UK database or estimated by the National Audit Office. None report on profits/losses. The ESSU PPP Equity Database identifies:
  - 240 PPP equity transactions involved 1,229 PFI projects (including multiple sale of some projects) valued at £10.0 billion.
  - Average profit was 50.6% (compared to average operating profits in PFI construction companies of 1.5% between 2003–09).
  - £517.9 million profit from a sample of 154 PFI projects. If the same level of profit were maintained for the 622 PPP project equity transactions the total profit would be £2.2 billion.
  - Profits could be as high as £4.2 billion if the same level of profits is obtained by the sale of secondary funds as in the direct sale of equity in PFI companies.
  - Two sectors had higher than average profits, health (66.7%) and criminal justice (54.9%) with transport (47.1%) and education (34.1%) below average.
  - An increasing number of PFI projects are registered in tax havens.

#### SALE OF PFI EQUITY AND GROWTH OF THE SECONDARY MARKET

7. There are basically two types of PFI equity transactions. Firstly, SPV shareholders selling equity in individual projects or in a group of projects. Secondly, the sale of secondary market infrastructure funds that have a portfolio of PFI equity stakes in SPVs. In both cases the partial or full ownership of equity in the SPV transfers to a new owner. Four trends are evident in the secondary market: portfolio building by some construction companies; recycling and profit-taking by other construction companies; the growth of joint ventures between PFI construction companies and banks, infrastructure funds and pension funds; and the growth of secondary market infrastructure funds (listed and unlisted).

#### GOVERNMENT ADOPTS “HANDS-OFF” ATTITUDE

8. Although public sector consent and profit sharing is required when PFI projects are refinanced, there are no requirements when the equity of PFI companies is sold. The Treasury has regarded the sale of PFI equity as a transaction solely between private companies in which the government has no involvement. It argues that a change in the equity ownership of the project is part of the normal takeover or merger of companies and is different from refinancing projects.

#### NEW DATABASE

9. The ESSU Database was compiled from Stock Exchange Regulatory News Service and Company Notices and Press Releases; Company Interim and Annual Reports & Accounts; UK Companies Houses filings;

Infrastructure fund share prospectuses; Construction and PFI company websites; HM Treasury PFI equity holders database; Partnerships UK Database; Securities & Exchange Commission 8K filings for US stock exchange companies; and financial, construction and infrastructure journals and web sites.

10. There are significant problems regarding access to, and the quality, of equity transactions in PFI companies. Many publicly listed companies will issue a Regulatory Notice or Stock Exchange announcement disclosing the acquisition or disposal of PFI equity, but in some cases companies consider the transaction is not of material financial interest. Privately-owned companies and private equity funds have no comparable disclosure requirements. A company may report the details of an equity sale or acquisition in their interim or annual report, but may not indicate the price, level of profit nor to whom they sold their shareholding. There is no common practice or standard requirement.

11. The SPV shareholders usually have pre-emption rights, which allow them the right to acquire the shares of other shareholders who want to sell their equity.

#### GROWTH OF PFI EQUITY SALES 1998–2010

12. The Database records 222 UK equity transactions between 1998–2010 covering 622 PFI projects. The annual rate of PFI equity transactions, not surprisingly, increased rapidly between 2000–04 during the formative years of the secondary market. There are inevitably variations in the number, and the total value, of transactions on an annual basis, reflecting the completion of PFI projects, recycling decisions of PFI contractors depending on their contract win-rates and secondary market funds seeking to expand their portfolios. The financial crisis appears to have had a minimal effect on PFI equity transactions.

**Table 1**

#### ANNUAL RATE AND VALUE OF UK PFI DIRECT EQUITY SALES

<i>Year</i>	<i>No. of equity transactions</i>	<i>No. of PFI projects (includes those with multiple equity sales)</i>	<i>Value of equity sold (£m) (No of transactions)</i>	<i>Estimated total value based on average (£m)</i>
1998	1	1	3.4 (1)	3.4
1999	1	1	n/a	n/a
2000	5	6	n/a	n/a
2001	5	15	117.4 (4)	146.7
2002	3	3	n/a	n/a
2003	16	30	135.6 (8)	271.2
2004	33	95	190.6 (14)	449.3
2005	38	59	306.3 (16)	727.5
2006	35	127	1,431.7 (24)	2,087.9
2007	21	66	401.8 (16)	527.4
2008	16	92	333.0 (8)	666.0
2009	29	60	370.4 (20)	537.1
2010	19	67	586.7 (14)	796.2
<b>Total</b>	<b>228</b>	<b>622</b>	<b>3,876.9</b>	<b>6,212.7</b>

Sources: ESSU PPP Equity Database, 2011

#### SECTOR DIFFERENCES

13. Health and Education PFI projects account for half of individual PFI equity project sales between 1998–2010—see Table 2. Transport, primarily roads and motorways, public transport and street lighting projects account for just over 10% followed by criminal justice—prisons, courts, remand centres—with 9%.

**Table 2**

#### INDIVIDUAL PFI EQUITY TRANSACTIONS BY SECTOR 1998–2010

<i>Sector</i>	<i>No. of PFI projects in equity transactions</i>	<i>%</i>
Health—hospitals and health centres	166	26.7
Education—schools & collages	148	23.8
Transport—public transport, roads & street lighting	65	10.5
Criminal Justice—prisons, courts, remand centres	57	9.2
Waste/Water	17	2.7
Defence	14	2.2
Housing—rehab of council estates & MoD housing	10	1.6
Leisure	10	1.6
Misc	35	5.6

<i>Sector</i>	<i>No. of PFI projects in equity transactions</i>	<i>%</i>
Unknown	100	16.1
<b>Total</b>	<b>622</b>	<b>100.0</b>

Source: ESSU PPP Equity Database, 2011

#### PFI PROJECTS SOLD MULTIPLE TIMES

14. The ESSU PPP Equity Database records 370 PPP projects in which equity in the SPV has been sold. For example, the equity in the Barnet Hospital PFI project was subject to five transactions as HSBC Infrastructure increased its equity from 30% to 100%. The Calderdale Hospital PFI company was involved in nine equity transactions between 2002–10 (Whitfield, 2011).

**Table 3**

#### PFI PROJECTS IN MULTIPLE SALE OF EQUITY

<i>No. of PFI projects</i>	<i>No. of transactions</i>
267	1
59	2
24	3
10	4
4	5
3	6
1	7
1	8
1	9

Source: ESSU PPP Equity Database, 2011

#### SALE OF SECONDARY FUNDS

15. Thirteen sales of secondary market funds between 2003–10 had a total value of £3.1 billion and involved an additional 607 PPP projects (Table 4).

**Table 4**

#### SECONDARY FUND EQUITY SALES IN UK

<i>Owner</i>	<i>Sold to</i>	<i>No. of PFI projects</i>	<i>Price £m</i>
Grosvenor House Group plc (2003)	n/a	5 (estimate)	4.0
Babcock Brown and Abbey National (2003)	Star Capital Partners, Bank of Scotland and AMP Capital Investors	23	n/a
Infrastructure Investors LP (Barclays, Societe Generale and 3i) (2005)	3i Group	31	150.0
HSBC Infrastructure Ltd and HSBC Infrastructure Fund (2006)	HSBC Infrastructure Company (HICL). PFI assets transferred to new listed company.	15	250.0
Investors in the Community Ltd (2007)	Trillium (Land Securities)	16	7.4
PFI Infrastructure Company (2007)	Infrastructure Investors LP (Barclays, Societe Generale and 3i)	22	156.0
Star Capital Partners, Halifax Bank of Scotland, AMP Capital Investors (2007)	Trillium (Land Securities)	79	927.0
Land Securities plc (2008)	Land Securities launches Trillium Investment Partners, a PPP Joint Venture	100 (estimate)	n/a
3i Group plc (2009)	Placed in market	n/a	60.8
Land Securities (2009)	Telereal	108	750.0
Telereal (2009)	Victorian Funds Management Corporation (Australia) and Transport for London Pension Fund	108	n/a

<i>Owner</i>	<i>Sold to</i>	<i>No. of PFI projects</i>	<i>Price £m</i>
Infrastructure Investors LP— Barclays acquire Societe Generale (31.7%), 3i (31.7%) and Fleming (4.9%) (2009)	Barclay Private Equity Integrated Infrastructure Fund	84	558.6
John Laing (2010)	John Laing Infrastructure Fund (John Laing has 23% stake)	16	242.3
<b>Total</b> (13 transactions)		<b>607</b>	<b>3,106.1</b> (10 transactions)

Source: ESSU PPP Equity Database, 2011

16. When the sale of equity in individual and group transactions is combined with the transfer of ownership when infrastructure funds are sold, the total number of equity transactions increases to 240 involving 1,229 PFI projects, including multiple transactions of some projects (Table 5).

**Table 5**

TOTAL OF PFI EQUITY AND SECONDARY FUND EQUITY SALES

<i>Year</i>	<i>No. of transactions</i>	<i>No. of PFI projects (includes multiple sales)</i>	<i>Value of equity sold (£m) (No of transactions)</i>	<i>Estimated total value based on average transaction (£m)</i>
Sale of PFI equity	228	622	3,876.9	6,212.7
Sale of secondary funds	12	607	3,106.1	3,727.3
<b>Total</b>	<b>240</b>	<b>1,229</b>	<b>6,983.0</b>	<b>9,940.0</b>

Source: ESSU PPP Equity Database, 2011

17. Joint ventures between PFI companies and infrastructure funds accounted for about 10% of equity sales. The sale of secondary funds accounted for only 5% of transactions but nearly half (49%) of PFI project equity sales.

PROFITS FROM PFI EQUITY SALES

18. The ESSU Database contains 63 transactions involving 154 PFI projects, where the sale price and profit from the equity transaction, are identified from reliable sources. The total value of equity sold was £1,026.6 million with £517.9 million declared profit (50.6%). The transactions were spread across the 2003–10 period with a diversity of construction companies and infrastructure funds, types of project, geographic location and size of project (Whitfield, 2011).

19. There are wide differences in the average profit rates between sectors with the average profit being 50.6%. Two sectors have higher than average profits, health (66.7%) and criminal justice (54.9%) with transport (47.1%) and education (34.1%) below average. The “multiple” category in Table 6 includes transactions covering a number of different types of assets and where the total profit was stated for a group of projects.

**Table 6**

PROFIT ON SALE OF PFI EQUITY IN UK (INCLUDES MULTIPLE EXAMPLES)

<i>Sector</i>	<i>No. of PFI transactions</i>	<i>No. of PFI projects</i>	<i>Value of equity sold (£m)</i>	<i>Total Profit (£m)</i>	<i>Average % profit</i>
Health	14	18	129.3	86.3	66.7
Education	6	8	47.8	16.3	34.1
Transport	8	12	101.8	48.0	47.1
Criminal Justice	6	15	122.4	67.2	54.9
Housing	1	1	5.2	4.2	80.8
Waste/Water	1	1	12.0	8.0	66.7
Leisure	1	5	6.5	5.6	86.2
Defence	2	2	9.3	12.5	134.4
Multiple	24	93	587.7	269.0	45.8
<b>Total</b>	<b>63</b>	<b>154</b>	<b>1,022.0</b>	<b>517.1</b>	<b>50.6</b>

Source: ESSU PPP Equity Database, 2011



20. If the same profit level of the sample of PFI projects were maintained for the 622 PFI projects involved in equity transactions, **the total profit would be £2.2 billion.**

21. Similarly, if the same rate of profit was achieved in the sale of secondary funds, the profit from PFI equity sales would be a further £2.0 billion, giving a total profit of **£4.2 billion.**

22. The rate of profit achieved by PFI construction companies is exceedingly high with two companies achieving over 70% (Lend Lease Corporation and Balfour Beatty) and four companies over 50% (John Laing, Interserve, Kajima Partnerships and Kier Group). Table 7 includes only the PFI equity transactions where profit information was available (none declared a loss) and does not reflect the full performance of PFI equity investment by these companies.

**Table 7**

MAJOR SELLERS OF PFI EQUITY IN UK BETWEEN 1998–2010 (BASED ON TABLE 5)

<i>Company</i>	<i>No. of PFI projects</i>	<i>Sale value (£m)</i>	<i>Profit (£m)</i>	<i>%</i>
Carillion plc	24	278.8	114.1	40.9
John Laing	22	170.3	100.6	59.1
Interserve plc	15	70.3	37.9	53.9
Lend Lease Corporation	11	14.7	11.5	78.2
Costain Group plc	8	37.1	16.2	42.9
Serco Group plc	7	79.9	16.0	20.0
Balfour Beatty plc	5	37.8	27.0	71.4
Kajima Partnerships	6	30.2	18.0	59.6
Kier Group plc	4	26.1	14.7	56.3

Source: ESSU PPP Equity Database, 2011

23. The profits in PFI projects contrast sharply with construction operating profit rates of the same contractors. These have remained low throughout the last decade. The average operating profit in UK construction/building activities for four major PFI construction companies (Balfour Beatty plc, Carillion plc, Costain plc and Kier Group plc) was 1.5% between 2003–09 (Company Annual Reports).

USE OF TAX HAVENS IN PFI EQUITY TRANSACTIONS

24. The equity in 91 PFI projects is owned by secondary market infrastructure funds located in tax havens (Table 8).

**Table 8**

PPP INFRASTRUCTURE FUNDS LOCATED IN TAX HAVENS

<i>Company</i>	<i>Tax haven</i>	<i>No. of PFI assets</i>	<i>PFI projects</i>
HSBC Infrastructure	Guernsey	33	Substantial stakes in hospitals, schools, police stations, Home Office Headquarters, London.
John Laing Infrastructure Fund	Guernsey	19	Range of schools, social housing, hospitals, courts, police stations and street lighting projects.
3i Infrastructure Fund (3i Groups owns 33.2%)	Jersey	18	Norfolk & Norwich University Hospital (26.0), Alpha Schools, Highland (50.0), Elgin Infrastructure Fund (joint venture with Robertson Group)
International Public Partnerships (formerly Babcock Brown Public Partnerships)	Guernsey	14	100% shareholding in schools and criminal justice PPP companies.
GCP Infrastructure Fund Ltd— Gravis Capital Partners	Jersey	7	4 investments in Grosvenor PFI Holdings and 3 in Investment in Leisure Infrastructure Investors Ltd
<b>Total</b>		<b>91</b>	

Source: ESSU PPP Equity Database, 2011

TRANSFER OF PFI EQUITY ASSETS TO CONTRACTOR'S PENSION FUNDS

25. At least five companies, Interserve, Amec, John Laing, Costain and Vinci, transferred PFI equity to their pension funds in lieu of cash payments or the transfer of other assets. The pension funds records ownership of the asset in its accounts and receives future dividends (Whitfield, 2011).

#### LONGER-TERM CONSEQUENCES

26. The focus on profits masks other important issues about the potential effects of the sale of PPP equity and the growth of secondary market infrastructure funds.

27. Firstly, the scale of profits indicate significant overpayment for risk transfer and could invalidate the original value for money assessment at the procurement stage. This can only be addressed by a new comprehensive and rigorous assessment framework.

28. Secondly, the privatisation of gains from publicly financed investment and development must be reversed, so that the public sector has a 50% share in any profit above a specified level.

29. Thirdly, new transparency and disclosure requirements should be introduced as a matter of urgency to require full public notification of equity sales.

30. Fourthly, the public sector can only effectively access benefits from operational efficiencies at five or seven year periods when facilities management contracts are reviewed either via benchmarking or competitive tendering of the services.

31. Finally, PFI equity sales and the growth of a secondary market results in further erosion of democratic control. As infrastructure funds increase their offshore portfolios of PFI assets, they will use their power to influence decisions affecting the future management and provision of key public facilities (Whitfield, 2010).

32. The NAO recognises that the risk of the consolidation of PFI equity could lead to “...*disproportionate market power, and particular asymmetry of power over small public authorities tendering and managing single PFI contracts. We would be concerned if we started to see a few consolidated owners dictating contract and commercial terms. We do not have evidence that this is happening*” (ibid). It concedes “...*the lack of visibility over the secondary market it is difficult to ascertain the effects that the secondary market has had to date*” (ibid).

#### RECOMMENDATIONS

1. The standard PFI contract should be re-written to include a ceiling imposed on the level of profits that can be extracted from PFI equity together with a requirement that the public sector should have a 50% share in any profit above a specified level.

2. A new value for money methodology should be devised to take account of the profiteering in PFI equity transactions and the other flaws in the current evaluation methodology.

3. New transparency and disclosure requirements should be introduced as a matter of urgency requiring more expansive notification about equity sales.

4. The Treasury PFI database should be significantly extended to include historic and future PFI equity sales, be publicly available and regularly updated.

5. The National Audit Office and Treasury should research the longer-term effects of the growing secondary market.

6. Ultimately, the negative effects of the PFI equity secondary market can only be solved by the termination of the PFI programme combined with new regulatory controls on existing projects.

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June 2011

### Written evidence from Infrastructure UK, HM Treasury

Q205: Austin Mitchell: *Grimsby's Heritage House is part of the PFI deal between Treasury and Mapeley STEPS..... But the public services which were brought there are now all leaving .....because the rents are too high.....Grimsby is the kind of place where it is cheaper than the real world: we could provide a lovely home for public services, and should do. Is this a consequence of the prices charged under a PFI deal being too high for the Departments to pay?*

#### RESPONSE FROM HMRC

Heritage House was included in the 2001 Strategic Transfer of the Estate to the Private Sector (STEPS) outsourcing contract with Mapeley. The contract comprised the transfer of around 600 freehold and leasehold properties to Mapeley for a £220 million upfront payment and £150 million in reduced payments over the contract term. Under the contract, Mapeley provides serviced accommodation and bears associated property risks in return for a monthly payment.

The monthly payment, or unitary charge, was fixed in 2001 and although it is property specific the quantum of charge was set in the context of the overall pricing of a national contract covering an extensive range of services. The unitary charge is uplifted on an annual basis by indexation and has no link to market terms in the specific location.

HMRC cannot comment on other government departments' vacation decisions. HMRC's decision to vacate Heritage House was taken in December 2008 as part of its transformation to ensure it operates in the most efficient and cost effective way and makes best use of its estate as a whole.

### Supplementary written evidence from Infrastructure UK, HM Treasury

NATIONAL AUDIT OFFICE—THE PERFORMANCE AND MANAGEMENT OF HOSPITAL PFI CONTRACTS 17 JUNE 2010

1. I am writing to you following your request for updated information arising from the above-mentioned NAO report. This was requested at the 15 June 2011 Public Accounts Committee hearing.

2. In paragraph 13 of the Summary of the NAO's report it stated that nine of the contracts had no-one assigned to contract management.

*13 Some Trusts are not, however, devoting sufficient resources to contract management. Many Trusts have recently increased the resources they devote to the management of their PFI contracts. These Trusts realised that managing the contracts was a greater challenge than they had at first thought. However, nine of the 76 PFI contracts (12%) have no one assigned to contract management.*

However in paragraph 3.6 of the main body of the report, the NAO state that the nine contracts have less than 0.2 Full Time Equivalent ("FTE") staff managing the contract.

*3.6 But some Trust teams are too small to cover the basic list of tasks necessary to protect value for money. We consider that the minimum requirement to run even a small PFI contract effectively is one contract manager spending the majority of his or her time managing the contract. Twenty-seven Trusts (36%) have less than one full time person managing their contract. A further nine (12%) do not have anyone spending a day a week managing their PFI contract (Figure 12 overleaf).*

I asked the NAO to clarify this and their position remains that a resource of less than 0.2 FTE is equivalent to "no one assigned to contract management".

3. I wrote to the Chief Executives of all of the Trusts that previously reported less than 0.2 FTE contract management resource to confirm the level of contract management resource now available, and reminded them of the NAO's recommendation. In response,

2 Trusts previously reported less than 0.2 FTE now report 1 or more FTE contract management resource.

1 Trust previously reported less than 0.2 FTE now reports 5.5 FTE contract management resource across their six PFI projects.

2 Trusts previously reported less than 0.2 FTE now report 0.25 FTE contract management resource. Both PFI projects are hard FM only.

2 Trusts previously reported less than 0.2 FTE now report 0.2 FTE contract management resource. Both PFI projects are Hard FM only.

1 Trust previously reported less than 0.2 FTE is currently reorganising its project management resource with a view to combining their resource with a neighbouring Trust which has existing PFIs.

1 Trust previously reported less than 0.2FTE continues to report less than 0.2 FTE contract management resource. This is hard and soft fm but is a small project with an annual service payment of £2.4 million.

### Written evidence from Infrastructure UK, HM Treasury

At the PAC hearing *Lessons from PFI and other projects* the Committee asked HM Treasury for a factual note on the relative value for money of the PFI option compared to the public sector comparator at moment of the decision, and on the tax expectations held at the time.

#### RESPONSE FROM HM TREASURY

The attached document provides the information held by HM Treasury on the PFI projects which were approved or conditionally approved by the Project Review Group. These records cover the period from January 2005 to March 2010. The Project Review Group was a cross-departmental body, chaired by the Treasury, responsible for approving PFI Credit funding provided by departments to local authorities. The attached data is at the date of the Outline Business Case for each project. No new centrally funded local authority projects have been approved since March 2010. The funding arrangements for local PFI projects were changed at last year's spending review and the functions of the PRG since have been transferred into the central Treasury approval process.

The information shows the percentage by which the value for money of the privately financed option exceeded that of the public sector comparator.

The data held for these projects is at the time of the Outline Business Case. The final project documentation, including information about tax expectations, is not held by Treasury and therefore cannot be provided.

<i>Date of PRG Meeting</i>	<i>Department</i>	<i>Local Authority</i>	<i>Project</i>	<i>VfM of PFI vs. PSC</i>
18-Mar-10	Home Office	WYPA	WYPA Operation and Training Accommodation Project	3.51%
18-Mar-10	Home Office	Avon and Somerset Police Authority	Avon & Somerset Police Accommodation Project	3.56%
16-Mar-10	CLG	Staffordshire Fire and Rescue	Staffordshire Fire and Rescue Service PFI 2	4.73%
16-Mar-10	DfT	Birmingham City Council	Birmingham Highways Management and Maintenance PFI Project (Additional Credits)	16.41%
16-Mar-10	DEFRA	North London Waste Authority	Residual Waste and Fuel Use Project	Waste services, 7.2%, Fuel Use 5.8%
16-Feb-10	CLG	Stoke-on-Trent City Council	Extra Care Housing PFI	4.14%
16-Feb-10	DfT	Isle of Wight council	Isle of Wight highways Maintainence	13.68%
16-Feb-10	DH	Leeds City Council	Holt Park Wellbeing Centre	4.14%
17-Nov-09	DfT	London Borough of Hounslow	Hounslow Highways Maintainence	9.37%
20-Oct-09	DEFRA	Essex County Council and Southend-on-Sea Borough Council	Essex Waste Management Partnership PFI	7.50%
21-Jul-09	DfT	Nottingham City Council	Nottingham Express Transit (Phase 2)	10.40%
21-Jul-09	CLG	Kent County Council	Kent Excellent Homes for All	5.00%
19-May-09	DEFRA	Solihull MBC, Coventry City Council and Warwickshire County Council	Project Transform	9.60%

<i>Date of PRG Meeting</i>	<i>Department</i>	<i>Local Authority</i>	<i>Project</i>	<i>VfM of PFI vs. PSC</i>
19-May-09	CLG	London Fire & Emergency Planning Authority	London Fire Brigade Property PFI Project	6.00%
31-Mar-09	DfT	Sheffield City Council	Sheffield Highways Maintenance	12.40%
17-Mar-09	DEFRA	Norfolk County Council	Norfolk County Council Residual Waste Treatment Project (Contract B)	6.94%
17-Mar-09	DEFRA	Hertfordshire County Council	Hertfordshire Primary Waste Project (PWP)	14.70%
17-Mar-09	DEFRA	London Boroughs of Croydon, Merton, Sutton and Royal Borough of Kingston	South London Waste Partnership	14.39%
17-Feb-09	DEFRA	Greater Manchester	Greater Manchester Waste Disposal Authority	18.44%
17-Feb-09	DEFRA	Kingston Upon Hull & East Riding of Yorkshire Councils	Hull & East Riding of Yorkshire Waste PFI	14.20%
18-Nov-08	Home Office	Gloucestershire Police Authority	Gloucestershire Police Divisional Headquarters	3.25%
18-Nov-08	Defra	Milton Keynes Council & Northamptonshire County Council	Joint Residual Waste Management Project	14.80%
21-Oct-08	Defra	Gloucestershire County Council	Gloucestershire Waste Project	20.00%
21-Oct-08	CLG (Housing)	London Borough of Brent	Brent non-HRA Housing and Social Care PFI Project	2.60%
21-Oct-08	CLG (Housing)	Salford City Council	Pendleton HRA Housing PFI Scheme	9.43%
30-Sep-08	DfT	Harrow Council	Harrow Street Lighting Project	16.80%
16-Sep-08	Defra	Leicestershire County Council	Leicestershire Waste	11.45%
16-Sep-08	Defra	Plymouth City Council, Torbay Council, Devon County Council	South West Devon Waste Partnership	8.60%
15-Jul-08	DfT	Cambridgeshire County Council (CCC) and Northamptonshire County Council (NCC)	Cambridgeshire and Northamptonshire Street lighting PFI Project	Capital Expenditure: Cambs: 8.25%, Northants 6.97%; Lifecycle: Cambs: 8.26% and Northants: 3.82%; Operating Costs: Cambs: 9.82% and Northants: 7.38%.
15-Jul-08	DEFRA	Staffordshire County Council (SCC)	Staffs Waste (W2R)	22.97%

<i>Date of PRG Meeting</i>	<i>Department</i>	<i>Local Authority</i>	<i>Project</i>	<i>VfM of PFI vs. PSC</i>
15-Jul-08	DEFRA	Collaboration between Gateshead Council, South Tyneside Council, Sunderland City Council	South Tyne & Wear Waste PFI	25.11%
17-Jun-08	CLG	Collaboration between Cumbria, Lancashire & Merseyside Fire & Rescue Authorities	North West Fire & Rescue Services PFI Project	4.70%
17-Jun-08	CLG	North Tyneside	Older People Homes for the Future (HRA)	7.34%
20-May-08	CLG	Suffolk County Council	Suffolk Fire and Rescue	8.18%
25-Mar-08	DEFRA	Leeds	Waste	12.30%
25-Mar-08	DfT	Knowsley	Street Lighting	5.47%
25-Mar-08	DEFRA	Bradford	Waste	21.75%
25-Mar-08	DEFRA	Suffolk County Council	Waste	7.95%
18-Mar-08	CLG	Woking	Housing	5.05%
18-Mar-08	CLG	Leeds	Housing	12.00%
18-Mar-08	DEFRA	Barnsley, Doncaster & Rotherham	Waste	19.93%
18-Mar-08	CLG	Gloucester	Fire	8.30%
18-Dec-07	DfT	Coventry City Council	Coventry Street Lighting	9.37%
18-Dec-07	DfT	Croydon and Lewisham	Croydon and Lewisham Street Lighting	18.80%
18-Dec-07	CLG	Manchester City Council	Manchester Collyhurst HRA Housing	7.23%
18-Dec-07	DfT	Hampshire County, Southampton City and West Sussex County Councils	South Coast Street Lighting	14.20%
18-Sep-07	DfT	Blackpool Council	Blackpool Streetlighting	10.50%
18-Sep-07	DfT	Sheffield City Council	Sheffield Streetlighting	10.10%
18-Sep-07	DfT	Nottingham City Council	Nottingham Streetlighting	15.90%
18-Sep-07	DfT	Birmingham City Council	Birmingham Highways Maintenance	16.41%
18-Sep-07	DfT	Rochdale Metropolitan Borough Council and Oldham Metropolitan Borough Council	Rochdale and Oldham Streetlighting	4.55% (Oldham) and 7.56% (Rochdale)
23-Jul-07	DCSF	Sandwell Metropolitan Borough Council	Sandwell Building Schools for the Future—Phase 1 (BSF Wave 3)	3.80%
23-Jul-07	DEFRA	North Yorkshire County Council and City of York Council	York and North Yorkshire Waste PFI	10.10%

<i>Date of PRG Meeting</i>	<i>Department</i>	<i>Local Authority</i>	<i>Project</i>	<i>VfM of PFI vs. PSC</i>
23-Jul-07	DCSF	Derbyshire County Council	Derbyshire Building Schools for the Future (BSF Wave 3)	3.50%
23-Jul-07	CLG	Nottingham City Council	Bulwell Joint Service Centre	10.33%
15-May-07	CLG	Manchester City Council	Manchester Brunswick HRA Housing PFI	10.20%
17-Apr-07	DEFRA	Merseyside Waste Disposal Authority	Waste Management Project	13.10%
17-Apr-07	CLG	Stoke on Trent & Staffordshire Fire Rescue Authority	Community Fire Stations	10.43%
17-Apr-07	DfT	Cumbria County Council	Carlisle Northern Development Relief Route	8.50%
20-Mar-07	DH	East Sussex	East Sussex Age Well Project	12.00%
20-Mar-07	CLG	Oldham Metropolitan Borough Council	Oldham Gateways HRA Housing Project	6.10%
16-Jan-07	DCLG	Wigan Borough Council	Wigan Joint Service Centre	7.20%
16-Jan-07	DCSF	Birmingham City Council	BSF Wave 2	8.90%
21-Nov-06	DfT	TfL	Thames Gateway Bridge	7.00%
21-Nov-06	DCMS	Bristol City Council	Hengrove Park Leisure PFI	20.00%
21-Nov-06	DCLG	Leeds City Council	Leeds Little London HRA Housing PFI	10.32%
17-Oct-06	DfES (now DCSF)	City of Nottingham	BSF. First Phase.	3.60%
19-Sep-06	DfES (now DCSF)	Kent County Council	BSF. First Phase.	6.00%
19-Sep-06	DCMS	Liverpool City Council	Liverpool Central Library and Archive	11.96%
15-Aug-06	DCLG	London Borough of Newham	Forest Gate HRA PFI project.	7.76%
20-Jul-06	DFES (Now DCSF)	London Borough of Newham	BSF	5.00%
20-Jul-06	DCLG	North East Fire and Rescue Authority (NEFRA)	Accommodation PFI project	6.40%
20-Jul-06	DEFRA	Cornwall County Council	Integrated waste management project.	7.43%
16-May-06	DfES (now DCSF)	South Tyneside and Gateshead	BSF. First phase of STaG project	4.17%
16-May-06	DEFRA	Cheshire	Waste PFI	17.63%
18-Apr-06	DfES (now DCSF)	Islington BC	BSF—Phase 1, Wave 2.	10.94%
24-Mar-06	ODPM	Derby City Council	Non HRA Housing PFI	11.00%
20-Mar-06	ODPM	Lambeth Council	Myatts Field North HRA Housing PFI	9.36%
20-Mar-06	ODPM	West Wiltshire District Council	Non HRA Housing PFI	14.30%
21-Feb-06	ODPM	London Borough of Lewisham	Lewisham HRA Brockley PFI Project	12.50%
17-Jan-06	ODPM	Oldham Council	Sheltered Housing PFI Project	16.00%
20-Dec-05	DCMS	Newcastle City Council	Newcastle Libraries PFI	13.70%

<i>Date of PRG Meeting</i>	<i>Department</i>	<i>Local Authority</i>	<i>Project</i>	<i>VfM of PFI vs. PSC</i>
20-Dec-05	ODPM	Manchester City Council	2nd Round Housing (HRA) PFI Scheme—Miles Platting Neighbourhood	3.30%
15-Nov-05	ODPM / DoH	Leeds City Council	Independent Living Project	8.50%
16-Aug-05	DFES	Waltham Forest Council	BSF—Phase 1	8.40%
16-Aug-05	ODPM	Kirklees Council	Housing PFI—Round 3	11.26%
19-Jul-05	DfT	Norfolk County Council	Street Lighting	9.00%
19-Jul-05	Home Office	Norfolk Constabulary	Three Counties Police Investigation Centre Project	7.30%
06-May-05	DFES	Leicester Council	BSF—Phase 1	10.00%
06-May-05	DFES	Leeds City Council	BSF—Phase 1	5.88%
06-May-05	DFES	Newcastle Council	BSF—Phase 1	8.10%
06-May-05	ODPM	Cheshire County Council	Extra Care Housing PFI	14.00%
06-May-05	ODPM	Kent County Council	Non-HRA Housing PFI	6.30%
15-Mar-05	DFES	Knowsley MBC	BSF Phase 1	4.74%
15-Feb-05	DFES	London Borough of Lewisham	BSF Phase 1	4.62%
15-Feb-05	DFES	Lancashire County Council	BSF Phase 1	2.11%
18-Jan-05	DFES	London Borough of Greenwich	BSF Phase 1	4.80%
18-Jan-05	DEFRA	Cambridgeshire County Council	Waste PFI Project	15.44%
18-Jan-05	DEFRA	London Borough of Southwark	Waste Management PFI	21.07%
18-Jan-05	DEFRA	Greater Manchester Waste Disposal Authority	Post Collection Waste Services PFI	14.00%

#### Supplementary written evidence from Infrastructure UK, HM Treasury

At the PAC hearing *Lessons from PFI and other projects* the Committee asked HM Treasury for a note on who owns the PFI contracts that have been sold in the secondary market.

#### RESPONSE FROM HM TREASURY

The attached table sets out information extracted from the PFI database published on the Treasury website. This database is compiled twice a year from information provided by departments and local authorities. On the basis of this information, the table shows the current ownership of the 81 projects for which the equity of one or more of the primary investors has been sold to secondary investors.

We are not aware of any North Korean or Iranian companies amongst the current equity owners of these projects.

The standardised PFI contract requires the private sector contractor to notify the public sector authority of changes of ownership, and gives the authority a right to restrict equity transfers when entering into the contract where there are particular change of ownership risks (for example to restrict equity transfers before completion of construction of the asset, or where there may be a national security or other interest in restricting ownership transfer to unsuitable parties).



HMT PFI Project ID	Project Name	Department	Constituency	Equity Holder 1: Name	Equity Holder 1: Change of Ownership since August 2009? (Yes/No)	Equity Holder 2: Name	Equity Holder 2: Change of Ownership since August 2009? (Yes/No)	Equity Holder 3: Name	Equity Holder 3: Change of Ownership since August 2009? (Yes/No)	Equity Holder 4: Name	Equity Holder 4: Change of Ownership since August 2009? (Yes/No)
11	PPP 2	Department for Education	More than one—Birmingham, Yardley; Birmingham, Sely Oak; Birmingham, Hall Green; Sutton Coldfield;	Innisfree	50%	Balfour Beatty Capital	50%				
15	Brighton & Hove—Four Schools	Department for Education	More than one—Brighton, Kempdown; Brighton, Pavilion.	Semperian PPP Investment Partners GP	100%		Yes				
24	Darlington Five Schools Project	Department for Education	Darlington	Kajima Partnership Limited	50%	HSBC Infrastructure Limited	50%		No		
26	Grouped Schools	Department for Education	More than one—North East Derbyshire; High Peak; West Dorset	Axa IM	100%		Yes				
30	The Sir John Colfox School	Department for Education	Department for Education	Johnson Workplace Management Group	100%		Yes				
33	Bridlington Schools	Department for Education	Department for Education	Semperian PPP Investment Partners GP	100%		Yes				
39	Special Schools PFI	Department for Education	Harrow East	DIF Infrastructure II UK Limited	100%		Yes				
42	BSF wave 3	Department for Education	Gravesham	Keir	80%	Kent County Council	Yes	10%	No	Building Schools for the Future Investments Limited	10%

HMT PFI Project ID	Project Name	Department	Constituency	Equity Holder 1: Name	Equity Holder 1: since August 2009? (%) (Yes/No)	Equity Holder 2: Name	Equity Holder 2: since August 2009? (%) (Yes/No)	Equity Holder 3: Name	Equity Holder 3: since August 2009? (%) (Yes/No)	Equity Holder 4: Name	Equity Holder 4: since August 2009? (%) (Yes/No)
46	Special Schools PPP	Department for Education	Department for Education	QED(KMC)Ltd the SPV is 100% owned by QED(KMC)Holdings Ltd.The equity in this company is held 86% by Grosvenor House Group PLC and 14% by Kirklees Council.Grosvenor House Group acquired the 86% stake in QED(KMC)Holdings Ltd from Wates PFI Investments(QED)Ltd in December 2010.	100% Yes						
53	Cardinal Heenan High School	Department for Education	Leeds North East	Johnson Workplace Management Group	100% Yes						
58	Lincolnshire Schools Grouped PFI Scheme	Department for Education	More than one—Sleaford and North Hykeham; Grantham and Stamford; Louth and Horncastle; Lincoln;	Lend Lease UK Infrastructure fund LP	50% Yes	Halifax Bank of Scotland	50%				
61	Bexley Three Schools Project	Department for Education	More than one—Bexley/Heath and Crayford; Old Bexley and Sidcup	IIC Projects Limited	100% Yes						
62	Jews Free School	Department for Education	Brent North	Semperian PPP Investment Partners GP	100% Yes						
69	Barnhill School	Department for Education	Hayes and Harlington	Johnson Workplace Management Group	100% Yes						
117	Two schools	Department for Education	Stafford	Semperian PPP Investment Partners GP	50% No						
127	Three North Wiltshire Secondary Schools	Department for Education	North Wiltshire	G4S plc	51% No						
				Pell Frischmann Ltd			50%				
				Semperian PPP Investment Partners GP			49%				

HMT PFI Project ID	Project Name	Department	Constituency	Equity Holder 1: Name	Equity Holder 1: Change of Ownership since August 2009? (%) (Yes/No)	Equity Holder 2: Name	Equity Holder 2: Change of Ownership since August 2009? (%) (Yes/No)	Equity Holder 3: Name	Equity Holder 3: Change of Ownership since August 2009? (%) (Yes/No)	Equity Holder 4: Name	Equity Holder 4: Change of Ownership since August 2009? (%) (Yes/No)
136	Stretford Divisional Headquarters and Fire Station	Department for Communities and Local Government	Altrincham & Sale West BC, Ashton-under-Lyne BC, Blackley & Broughton BC, Bolton North, Bolton West, East BC, Bolton South East BC, Bolton West CC, Bury North BC, Bury South BC, Cheshire BC, Denton & Reddish BC, Hazel Grove CC, Heywood & Middleton CC, Leigh CC, Makerfield CC, Manchester, Central BC, Manchester, Gorton BC, Manchester, Withington BC, Oldham East & Saddleworth CC, Oldham West & Royton CC, Rochdale CC, Salford & Eccles BC, Stalybridge & Hyde CC, Stockport BC, Worsley & Eccles South CC, Wythenshawe & Sale East BC, Carden Croft	100%	No						

HMT PFI Project ID	Project Name	Department	Constituency	Equity Holder 1: Name	Equity Holder 1: Change of Ownership		Equity Holder 2: Name	Equity Holder 2: Change of Ownership		Equity Holder 3: Name	Equity Holder 3: Change of Ownership		Equity Holder 4: Name	Equity Holder 4: Change of Ownership		
					1: since 2009? (%)	(Yes/No)		2: since 2009? (%)	(Yes/No)		3: since 2009? (%)	(Yes/No)		4: since 2009? (%)	(Yes/No)	
151	Divisional HQ and two fire stations	Department for Communities and Local Government	Blackburn BC, Blackpool North & Cleveleys BC, Blackpool South BC, Burnley BC, Chorley CC, Fylde CC, Hyndburn BC, Lancaster & Ribblesdale CC, Fleetwood CC, Morecambe & Lunesdale CC, Pendle BC, Preston BC, Ribblesdale & Ribblesdale CC, Rossendale & Darwen BC, South Ribble CC, West Lancashire CC, Wyre & Preston North CC.	Carden Croft & Co Ltd	100%	Yes										
159	Reading North Whitley	Department for Communities and Local Government	Reading East, Reading West	Southern Housing	50%	Yes	Windsor Housing	50%	Yes							
164	NewhamCanning Town	Department for Communities and Local Government	Poplar and Canning Town	John Laing Infrastructure Fund	100%	Yes										
193	Amber Valley Quest for Leisure	Department for Culture, Media and Sport	More than one	DC Leisure Developments Ltd		Yes	Leisure Infrastructure Investors Limited	100%								
194	New Central Library and community library ICT system	Department for Culture, Media and Sport	Bournemouth West	Kier Project Investment	50%	No	Senperian	50%	Yes							
197	New Leaf Leisure Centres Project	Department for Culture, Media and Sport	More than one	Environments for Learning Leeds HoldCo Three Limited	90%	Yes	Interserve Facilities Management Limited	10%	No							

HMT PFI Project ID	Project Name	Department	Constituency	Equity Holder 1: Change of Ownership		Equity Holder 2: Name	Equity Holder 2: Change of Ownership		Equity Holder 3: Change of Ownership		Equity Holder 4: Name	Equity Holder 4: Change of Ownership	
				1: since Equity Share 2009? (%) (Yes/No)	1: since Equity Share 2009? (%) (Yes/No)		2: since Equity Share 2009? (%) (Yes/No)	2: since Equity Share 2009? (%) (Yes/No)	3: since Equity Share 2009? (%) (Yes/No)	3: since Equity Share 2009? (%) (Yes/No)		4: since Equity Share 2009? (%) (Yes/No)	4: since Equity Share 2009? (%) (Yes/No)
202	Recreation West	Department for Culture, Media and Sport	St Ives	50%	Yes	Equitix Leisure Ltd	50%						
203	Sport & Leisure Facilities & Maltby Joint Service Centre Project	Department for Culture, Media and Sport	More than one	100%	Yes	Leisure Infrastructure Investors Limited							
210	Integrated Waste Management: Put Waste in its Place	Department for Environment, Food and Rural Affairs	More than one	20%	Yes	Shanks Waste Management Ltd	80%	Yes					
217	Waste Management Project	Department for Environment, Food and Rural Affairs	More than one	100%	Yes	Donarbon Services Ltd							
219	Lancashire Waste Partnership PFI proposal	Department for Environment, Food and Rural Affairs	More than one	50%	No	Global Rewables UK Ltd/AMEC	50%	Yes					
231	Carlisle Northern Development Route	Department for Transport	More than one—Carlisle, Penrith & The Borders, Workington.	82%	Yes	Balfour Beatty Infrastructure Investments Ltd	18%	Yes					
270	DLR City Extension	Department for Transport	More than one—Poplar & Canning Town	50%	Yes	Semperian PPP Holdings Ltd	50%	No					
272	DLR Woolwich Extension	Department for Transport	More than one—Greenwich & Woolwich, Poplar & Canning Town	50%	Yes	Semperian PPP Holdings Ltd	50%	No					
283	Reprovision of mental health services	Department of Health	More than one	100%	No	Trillium PP Investment Partners LP	8%	Yes					8%
284	Oldchurch hospital in Romford	Department of Health	Romford	50%	Yes	Infrastructure Investors Ltd	25%	No					25%
293	Stoke Mandeville	Department of Health	Aylesbury	90%	No	HSBC Infrastructure Company Ltd	10%	Yes					
328	Newham General Hospital	Department of Health	West Ham	50%	Yes	John Laing Investments Fund Limited Partnership	50%	No					

HM Treasury PFI Project ID	Project Name	Department	Constituency	Equity Holder 1: Name	Equity Holder 1: Change of Ownership since August 2009? (Yes/No)	Equity Holder 2: Name	Equity Holder 2: Change of Ownership since August 2009? (Yes/No)	Equity Holder 3: Name	Equity Holder 3: Change of Ownership since August 2009? (Yes/No)	Equity Holder 4: Name	Equity Holder 4: Change of Ownership since August 2009? (Yes/No)
329	New District General Hospital	Department of Health	Hereford	Semperian Asset Management	75% No	Land Securities Group PLC	6% Yes from SMIF to LS—no change to share				
342	Orthopaedics/medicine redevelopment	Department of Health	Oxford East	Barclays European Infrastructure Ltd	50% No	Semperian Asset Management	50% Yes				
344	John Radcliffe Hospital	Department of Health	Oxford East	Infrastructure Investments General Partner Ltd	50% No	Infrastructure Investments (Portsmouth) Ltd	40% Yes	Royal Bank Projects Investment Ltd	10% Yes		
358	Princess Royal Hospital (Bromley)	Department of Health	Orpington	Innisfree	50% Yes	Semperian Asset Management	50%				
379	Redevelopment of Manor Hospital site	Department of Health	Walsall	Innisfree Limited	50% No	Semperian Asset Management	50% Yes				
386	GCHQ New Accommodation	GCHQ	Cheltenham	Carillion Private Finance Ltd	20% Yes	GSL Joint Ventures Ltd	40% No	BT Holdings Ltd	20% No	Innisfree	20% Yes
387	Newcastle Estate Development	HM Revenue and Customs	More than one	Semperian	80% yes	Interserve Facilities Management	20% No				
395	GOGGS West	HM Treasury	Cities of London & Westminster	Catalyst Investment Holdings Ltd.	50% Yes	Barclays Private Equity	50% Yes				
396	Centralised Custody Suites	Home Office	Police Authority covers multiple constituencies	Infrastructure Investments LLP	90% Yes	RSTM	10%				
399	Firearms Facility	Home Office	Police Authority covers multiple constituencies	John Laing Social Infrastructure Ltd	27% Yes	HSBC Infrastructure Company Ltd	73% Yes				
408	Tsrad Mynach Police Station	Home Office	Police Authority covers multiple constituencies	David McClean (Holdings) Ltd	100% Yes						
414	HQ, Operations & Communications Centre	Home Office	Police Authority covers multiple constituencies	Amber Infrastructure Ltd	100% Yes						

HMT PFI Project ID	Project Name	Department	Constituency	Equity Holder 1: Change of Ownership		Equity Holder 2: Name	Equity Holder 2: Change of Ownership		Equity Holder 3: Change of Ownership		Equity Holder 4: Change of Ownership		
				Equity Holder 1: since August 2009? (%) (Yes/No)	Equity Holder 1: since August 2009? (%) (Yes/No)		Equity Holder 2: since August 2009? (%) (Yes/No)	Equity Holder 2: since August 2009? (%) (Yes/No)	Equity Holder 3: since August 2009? (%) (Yes/No)	Equity Holder 3: since August 2009? (%) (Yes/No)	Equity Holder 4: since August 2009? (%) (Yes/No)		
421	Allenby/Comaught	Ministry of Defence	More than one—Devizes, Salisbury, Aldershot, Westbury & North West Hampshire Harrigate & Knaresborough	5% No	No	HSBC	18% Yes	Yes	18% Yes	45% No	No	Innisfree	33% Yes
422	Army Foundation College (AFC)	Ministry of Defence	Halifax/Bank of Scotland	49% No	No	Semperian PPP Investment Partners LP	51% Yes	Yes	51% Yes	5% Yes	Yes	Babcock	
423	ASTUTE Class Training Service (ACTS)	Ministry of Defence	Argyll & Bute	48% No	No	BAE Insite							
436	Provision of Marine Services (PMS)	Ministry of Defence	More than one— Portsmouth South, Carmarthen West and South Pembrokeshire, Ross, Skye and Lochaber, Inverclyde, Argyll and Bute, Plymouth Devonport.	100% Yes	Yes	Barclays Integrated Infrastructure Fund	48% No	No	48% No				
440	Heavy Equipment Transporters (HET)	Ministry of Defence	More than one— Richmond (Yorks) and Salisbury.	50% No	No	Kellog Brown and Root Ltd	50% Yes	Yes	50% Yes				
441	Joint Services Command and Staff College	Ministry of Defence	North Swindon	100% Yes	Yes	Barclays Private Equity							
448	MOD-wide Water and Waste Water Project (Aquatrine)—Package A	Ministry of Defence	More than one	100% Yes	Yes	Kelda Water Services Ltd							
451	Naval Communications	Ministry of Defence	More than one	20% Yes	Yes	BABCOCK	80% No	No	80% No				
453	NRTA Fire Fighting Training Units (FFTU)	Ministry of Defence	Portsmouth South, Argyll and Bute, Plymouth Devonport	100% Yes	Yes	Babcock							
464	Tidworth Water & Sewerage	Ministry of Defence	Devizes	100% Yes	Yes	Veolia Water Projects Ltd							





HMT PFI Project ID	Project Name	Department	Constituency	Equity Holder 1: Change of Ownership		Equity Holder 2: Name	Equity Holder 2: Change of Ownership		Equity Holder 3: Name	Equity Holder 3: Change of Ownership		Equity Holder 4: Name	Equity Holder 4: Change of Ownership	
				Equity Holder 1: since August 2009? (%) (Yes/No)	Equity Holder 1: since August 2009? (%) (Yes/No)		Equity Holder 2: since August 2009? (%) (Yes/No)	Equity Holder 2: since August 2009? (%) (Yes/No)		Equity Holder 3: since August 2009? (%) (Yes/No)	Equity Holder 3: since August 2009? (%) (Yes/No)		Equity Holder 4: since August 2009? (%) (Yes/No)	Equity Holder 4: since August 2009? (%) (Yes/No)
593	Perth & Kinross Schools	Scottish Government	More than one	ABN Amro Infrastructure Capital Management Limited	100%	Yes								
599	Addiewell Prison	Scottish Government	Livingston	Innerserve PFI 2005 Ltd	33%	No	Royal Bank Project Investments Ltd	33%	No	Sodexo Investment Services Ltd	33%	Yes		
601	Aberdeen	Scottish Government	More than one	Kelda Water Services Limited	100%	Yes								
605	Highland	Scottish Government	More than one	Veolia Water UK PLC	50%	Yes	Barclays Private Equity	50%	No					
607	Moray	Scottish Government	More than one	Veolia Water UK PLC	33%	Yes	Barclays Private Equity	67%	No					
608	Tay	Scottish Government	More than one	Veolia Water UK PLC	33%	Yes	Barclays Private Equity	33%	No	Henderson Private Capital	33%	No		
611	South Lanarkshire Schools	Scottish Government	More than one	Semperian	43%	Yes	Innisfree	43%	Yes	John Laing	15%	Yes		
612	Ballfron Schools	Scottish Government	Stirling	SGP Ltd	100%	Yes								
640	Garth Olwg Lifelong Learning Centre	Welsh Assembly	Pontypridd	Barclays Bank PLC	100%	Yes								

Note: Projects 136, 408, 448 and 601 have been updated since the last collection exercise and therefore differ from that published online.

HM Treasury has sought verification from the relevant authorities for the equity data for projects 283 and 329 which appears incomplete, but had not received this at the time of submitting this response to the PAC

**Written evidence from Infrastructure, HM Treasury**

At the PAC hearing *Lessons from PFI and other projects* the Committee asked HM Treasury for a note on how many people at the centre are managing PFI projects.

**RESPONSE FROM HM TREASURY**

At Treasury there are six people in the PPP Policy team. Their role is maintain and develop PPP policy, to coordinate this across other central departments, to collect data about projects that is published on the Treasury website twice yearly and to respond to enquiries about PPP policy. In addition there is around one FTE dealing with derogations from the standard form contract as part of the Treasury's approval process. Staff involved in the assurance and approval of projects work across a broad range of projects and issues, not just PFI, and so it is not possible to identify FTE engaged on PFI.

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